OCTOBER 1960

The Controller

OCT 18 1960
BUSINESS ADMINISTRATION LIBRARY

EDITED FOR CONTROL AND FINANCE OFFICERS EXCLUSIVELY

TIME-VALUE METHOD IMPROVES INVESTMENT YIELD CALCULATION

David L. Carpenter

WHAT DOES MANAGEMENT WANT OF ACCOUNTING?

John O. Nicklis

CASH FORECASTING WITH COVERAGE OF ALL FACTORS

S. J. Dziuban

PRICE DEPRECIATION AND PAPER PROFITS

S. A. Tesoriere

ABC AUDITED PAID CIRCULATION

65c | $7.00 A Year

University of Michigan
Gen'l. Library
Ann Arbor, Mich. OPEN FOR DISTRIBU
CA1
12/58

YUM

New from Royal Precision... RPC-9000

THE LOWEST-PRICED COMPLETE DATA PROCESSING SYSTEM ON THE MARKET TODAY!

Economical design: The new, completely-transistorized RPC-9000 is designed for serial mode of operation. This feature utilizing magnetostrictive delay lines for high-speed memory permits great reduction in original equipment costs. Tape transports using continuously revolving loops of magnetic tape rather than "start-and-stop" techniques further cut initial investment.

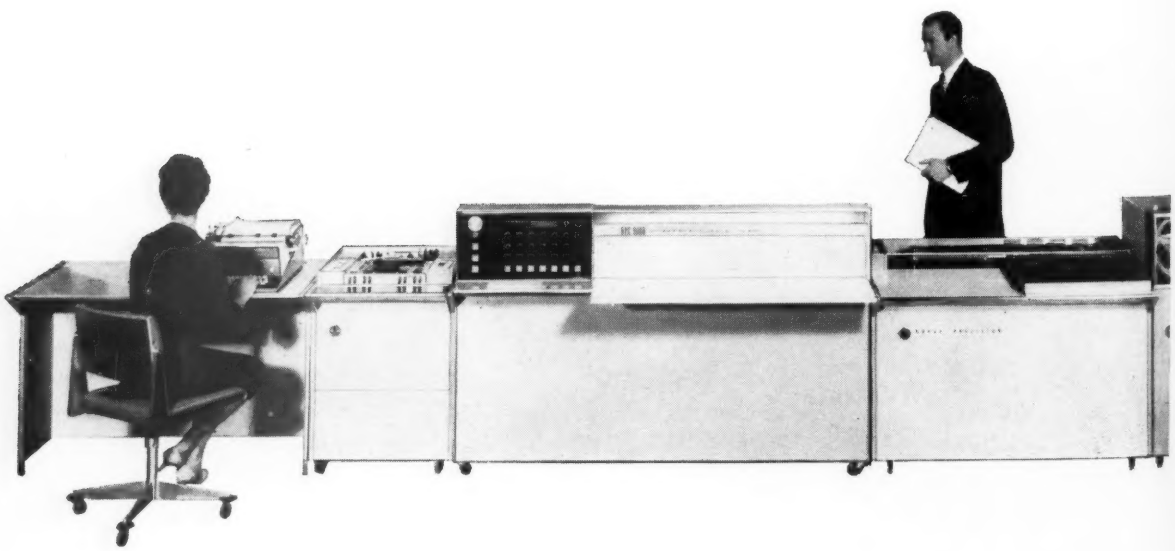
Efficient operation: The RPC-9000 processes data "in line." Data are accepted in random order, and all affected records are automatically updated in a single uninterrupted sequence of operations. No batching or sorting is necessary. Data are recognized by content, not location. This eliminates the need for location codes, and allows efficient utilization of storage capacity. Eight separate records are searched simultaneously. Completely buffered input-output permits simultaneous operation of all system components.

Tailored to your needs: With the RPC-9000 you buy the exact amount of data processing you require. Start with the basic system—computer, tape-typewriter, magnetic tape storage unit. Then, as your volume grows, you can add high-speed paper-tape punches and readers; punched card readers; line printers; additional tape typewriters; more magnetic tape cartridges; more internal memory. You can operate up to 30 of these devices at the same time.

Economical in use: The RPC-9000 is designed for ease of operation and maintenance. It uses power from any ordinary wall outlet, requires no air conditioning or site preparation. This low-cost system will perform the full range of your data processing needs. See your nearby Royal McBee Data Processing Systems Sales Representative without delay, or write to the address below for comprehensive brochure.

Royal Precision Corporation

Royal Precision—producers of the LGP-30, the RPC-4000 and the RPC-9000—is jointly owned by the Royal McBee and General Precision Equipment Corporations. Sales and service are available coast-to-coast, in Canada and abroad through Royal McBee Data Processing Offices.



MARKETED BY ROYAL McBEE, DATA PROCESSING DIVISION, PORT CHESTER, N. Y.

If you have sales ability, and are interested in electronic data processing contact your nearest Royal McBee Data Processing Office, or write Sales Administration Director, Royal McBee Corporation, Port Chester, New York.

PAUL HAASE, Editor

BENJAMIN R. MAKELA
Associate Editor

JAMES C. MALONE
Publication Manager

CEIL SMITH THAYER
Assistant Editor

PEGGY COURTNEY
Publications Associate

•

JOHN A. MURPHY
Advertising Manager

Editorial material in THE CONTROLLER is selected in accordance with the following:

CONCEPT OF MODERN CONTROLLERSHIP
of Controllers Institute of America

1. To establish, coordinate and administer, as an integral part of management, an adequate plan for the control of operations. Such a plan would provide, to the extent required in the business, profit planning, programs for capital investing and for financing, sales forecasts, expense budgets and cost standards, together with the necessary procedures to effectuate the plan.

2. To compare performance with operating plans and standards, and to report and interpret the results of operations to all levels of management and to the owners of the business. This function includes the formulation and administration of accounting policy and the compilation of statistical records and special reports as required.

3. To consult with all segments of management responsible for policy or action concerning any phase of the operation of the business as it relates to the attainment of objectives and the effectiveness of policies, organization structure and procedures.

4. To administer tax policies and procedures.

5. To supervise or coordinate the preparation of reports to governmental agencies.

6. To assure fiscal protection for the assets of the business through adequate internal control and proper insurance coverage.

7. To continuously appraise economic and social forces, and government influences, and interpret their effect upon the business.

Member
Audit Bureau
of Circulations

Member
Magazine Publishers
Association, Inc.

The Controller

Contents for October 1960

FEATURES Page

TIME-VALUE METHOD IMPROVES INVESTMENT YIELD CALCULATION—Stemming from efforts to improve on existing methods, new method for calculating yield of industrial investment gives consistent results, responds well to variables, and works simply—David L. Carpenter 461

WHAT DOES MANAGEMENT WANT OF ACCOUNTING?—The pace and complexity of modern business call for better interpretation, more speed and an emphasis on the future from accounting. Pitney-Bowes' vice president for finance makes specific recommendations—John O. Nicklis 468

CASH FORECASTING WITH COVERAGE OF ALL FACTORS—How to meet the need for maintaining a sound cash and working capital position by developing projections through a broad income equity forecast—S. J. Dziuban 474

PRICE DEPRECIATION AND PAPER PROFITS—The effect of "subliminal depreciation" on the validity of the profit statement and what accountants in other countries are doing to allow for it—S. A. Tesoriere 478

SPECIAL FEATURE

COMMITTEE CHAIRMEN AND VICE CHAIRMEN—CONTROLLERS INSTITUTE OF AMERICA—1960-1961 504-505

DEPARTMENTS

CORRESPONDENCE 456

DATES AHEAD 486

PAGING THE NEW BOOKS 494

FINANCIAL INCENTIVES FOR MANAGEMENT
Reviewed by Harold E. Boehm

RESEARCH NOTES 498

PERSONAL NOTES 500

OPPORTUNITIES 508

THE CONTROLLER. Published monthly by Controllers Institute of America, Inc. Editorial office, Two Park Avenue, New York 16, N. Y. Publication office, 73 Main Street, Brattleboro, Vermont.

Second class postage paid at Brattleboro, Vt., September 1, 1937, under the act of March 3, 1879. Subscription $7.00 a year. 2 years $12.00. Single copy 65c. Orders from nonmembers of CIA outside Continental U. S. and Canada must be accompanied by remittance. Address subscriptions (and notices of change in mailing address) to the Circulation Manager care of the New York office. Advertising rate card available upon request to the Advertising Manager.

Change of address should be sent before the first of month preceding the issue to be changed.

The editor will be pleased to review manuscripts submitted for publication, but will not be responsible for loss in transit or otherwise. The views expressed in the various articles are those of the authors and not necessarily those of Controllers Institute of America. Printed in U. S. A.

POSTMASTER: Send Form 3579 to The Controller, 2 Park Ave., New York 16, New York.

Correspondence

RISING TAXES ON INTERSTATE BUSINESS

Editors, THE CONTROLLER:

I have just finished reading Thomas B. Noble's article entitled "Impact of Changes in State and Local Taxes" (THE CONTROLLER, August 1960). I feel that Mr. Noble has done an excellent job in bringing to the controller and his staff's attention the real seriousness of the state and local tax problem which exists with companies which are faced with doing business in many states.

In his article, Mr. Noble prepared a table of states by classification of income tax structure. I would like to add one more state to this list, that being the State of Michigan. Michigan has a "Business Activities Tax" which can be quite costly to companies doing business in Michigan. Admittedly, there is some debate as to this tax being an income tax. The Michigan Supreme Court decided on April 11, 1960, in the case of Armco Steel Corp. v. Nims, that the business activities tax is an "income" tax and its imposition on interstate income apportioned by source, under the rule in the controlling Northwestern-Stockham decision, does not violate the Commerce Clause or due process requirements. The Court denied the taxpayer's contention that the tax was actually a gross receipts tax, and not an income tax, by reason of the disallowance of deductions for payroll and depreciation, in arriving at taxable net income. The taxpayer was held liable for the Michigan business activities tax on its adjusted receipts derived from interstate sales and apportioned to sources in Michigan. This is just another example of the threat of an increasingly heavier tax burden on interstate business which is being imposed on companies today.

As a person directly affected with this matter, I would also like to further stress the importance of a direct communications line between top management and the controller's and tax accountant's staff. As the impact of state and local taxes becomes greater, the controller and tax accountant should have knowledge of every move the company is going to make prior to the move in order that a "tax cost" evaluation can be made. Tax management can no longer be looked upon as the necessary evil after the decision has been made. It must today play a role in the actual decision.

R. J. REHOR
Tax Accountant
Cleveland Pneumatic Industries, Inc.
Cleveland, Ohio

FOR REPORTING BAD DEBTS

Editors, THE CONTROLLER:

I read with great interest Donald F. Dvorak's article in the May 1960 issue of THE CONTROLLER ("Winning Tax Savings from Bad Debts") concerning the best method of reporting bad debt losses for federal income tax purposes. Mr. Dvorak points out the advantages of using the reserve method, and suggests a formula based on the Black Motor Company formula, but with weights of from one to six being given to the past six years' experience, the most recent year receiving the weight of six, etc.

DO YOU AGREE or do you disagree with an article in this month's issue? Your fellow readers will be interested. Naturally, letters to the editor must bear the writer's signature and address; these will be withheld on request. The Editors

---

I have no quarrel with giving the most recent years more weight than the earlier years in any formula devised as I think it is a sound idea, but I believe the Black Motor Company formula is mathematically incorrect to begin with and does not accomplish its intended purpose. The purpose of any reserve for bad debts, certainly, is to provide for any future bad debt losses arising from inability to collect any of the receivables *outstanding at the date as of which the reserve is determined.* If the total receivables of a business are $10 million at balance sheet date, and past experience, however measured, indicates that 1% of receivables is eventually charged off, then a reserve of $100,000 is indicated.

The Black Motor Company method determines the average *annual* charge-off over a period of six years, then applies the percentage so determined, to the outstandings at balance sheet date to arrive at the amount of allowable reserve. This method would be mathematically justifiable *only* if the average life of the receivables were exactly one year. If the average life of the receivables were only six months, the correct percentage would be one half of the average annual charge-off. If the average life of the receivables were 18 months, the correct percentage would be one and one-half times the annual charge-off, etc.

(Continued on page 458)

THINKING OF RETAINING A CONSULTANT TO HELP YOUR OFFICE OPERATION?

Ask these questions first:

Is your problem well defined?
Has the consultant specialized in this particular field?
Have his techniques been successfully proven in practice?
Can he give you a schedule for completion of the work?
How much can your company save by retaining him?

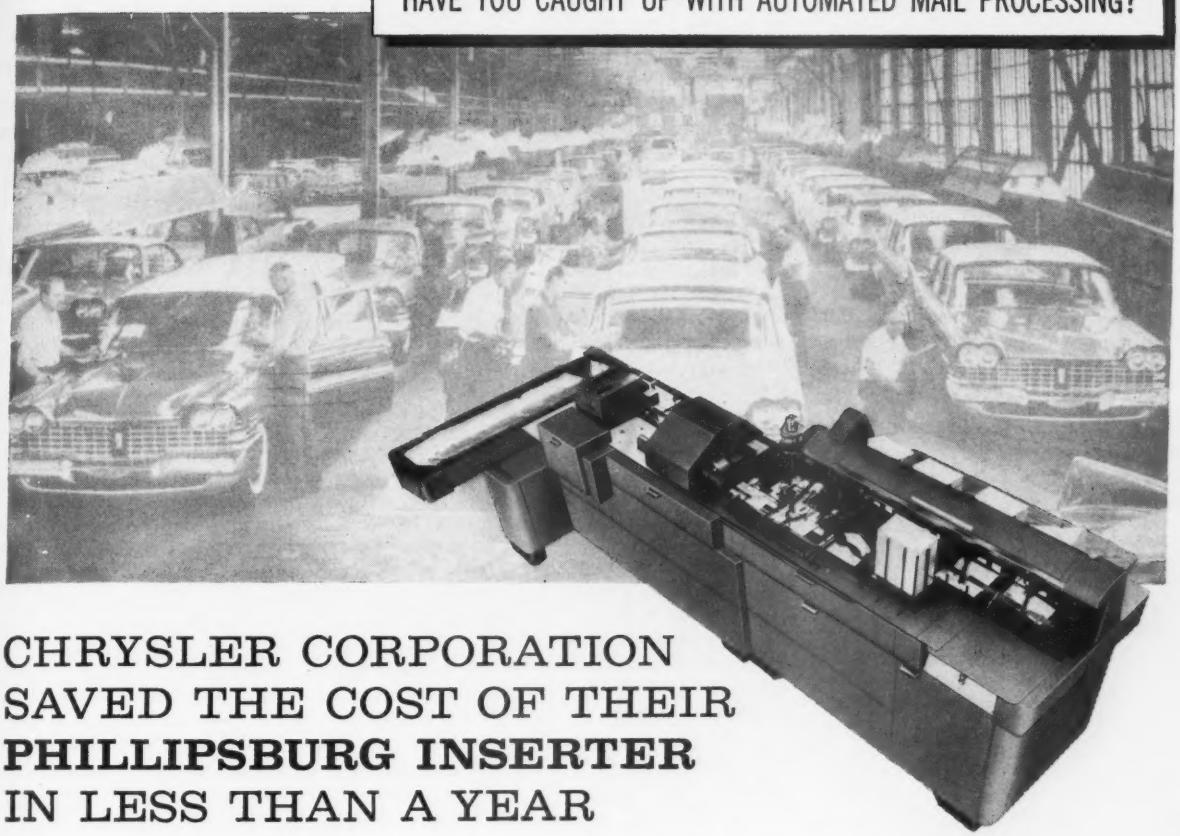
You get quick, straightforward answers to these questions—answers that can save your company money—when you consult the Frank M. Knox Company. Specialists in office cost control for over 28 years, Knox has the experience, staff and proven techniques to help you cut office costs—speed up your work flow. Call or write for complete information. No obligation, of course.

THE FRANK M. KNOX COMPANY, INC.
MANAGEMENT CONSULTANTS

60 East 42nd Street
New York 17, New York

1404 East 6th Street
Cleveland 14, Ohio

HAVE YOU CAUGHT UP WITH AUTOMATED MAIL PROCESSING?



CHRYSLER CORPORATION SAVED THE COST OF THEIR **PHILLIPSBURG INSERTER** IN LESS THAN A YEAR

Before Chrysler Corporation equipped their mailing department with a Phillipsburg Inserter, crews of women hand-inserted mailing material, moistened and sealed envelopes. Now a modern Phillipsburg Inserter inserts up to 8 enclosures into envelopes as they flash through the machine. Then in the same continuous sequence automatically moistens and seals the envelopes, imprints postage, counts and stacks up to 6,000 pieces of mail an hour. In less than a year Chrysler Corporation's Phillipsburg Inserter paid for itself. Presently, 90% of the company's mailings are handled internally with greater speed, accuracy, economy and with complete security.

Whether your mail operation rivals a first class post-office, or you would use your Phillipsburg only a few hours a month, a Phillipsburg Inserter will reduce your present mailing costs 80% or more, and pay for itself in less than three years.

Fill in and mail the coupon for complete information on how the Phillipsburg Inserter can reduce your mailing costs, speed your mailing operations.

HAVE YOU CAUGHT UP WITH AUTOMATED MAIL PROCESSING? In one continuous sequence the PHILLIPSBURG INSERTER *Gathers . . Nests . . Opens Envelope Flaps . . Inserts . . Moistens, Closes, Seals Envelopes . . Imprints Postage . . Counts . . Stacks up to 6,000 Pieces of Mail an Hour*

BELL & HOWELL PHILLIPSBURG COMPANY
14 East Jackson Blvd., Chicago 4, Illinois

C-10-60

Please send

☐ Modern Mailing Through Mechanization Brochure
☐ A practical application for my business

NAME _____

FIRM _____

STREET _____

CITY _____ ZONE ____ STATE _____

The Black Motor Company method provides a reserve equal to one year's charge-off rather than equal to the estimated amount of uncollectible receivables presently outstanding. There is no logical reason why a reserve for bad debts should equal one year's charge-off any more than it should equal eight months' charge-off or 14 months' charge-off. As stated above, the reserve should equal that portion of outstanding receivables that will ultimately be charged off. The Black Motor Company method can be used, however, with an adjustment for average life of receivables. The average life of receivables can be determined by dividing cash collections of receivables plus charge-offs over a period of time by the average receivables outstanding in the same period of time. This will produce a mathematically correct average life. The average annual charge-off percentage can then be adjusted to allow for the average life of the receivables, and the resultant percentage will be the proper one for the reserve. (In determining the average annual charge-off, the years can be weighted if desired, as Mr. Dvorak suggests.)

The Black Motor Company case was decided 20 years ago, and appears to have become somewhat of a classic, although it is basically incorrect, mathematically. (I have detailed computations to prove my contention, which I have omitted because of their length and complexity.) So far as I know, however, this formula has never been attacked on the basis of its mathematical incorrectness. Of course, it works to the advantage of any business whose receivables have an average life of less than one year and is disadvantageous only to those businesses whose receivables are outstanding, on the average, for more than one year.

If any of your readers have had any experience with, or know of any decisions concerning, equating the average annual charge-off to the average life of the receivables for the purpose of arriving at an allowable reserve, I would appreciate hearing from them.

R. B. MEAD
Household Finance Corporation
Chicago, Illinois

HOW ONE READER FOUND US

Editors, THE CONTROLLER:

At this time I should like to request a one-year subscription to THE CONTROLLER. I became aware of your publication reading the *Journal of Accountancy* and the *Accounting Review,* which so often refer to articles published in THE CONTROLLER.

RICHARD T. CHARLTON
Longford-Hamilton Corporation
Portland, Oregon

"TIME FOR CHANGE" IN FORMAT

Editors, THE CONTROLLER:

Many of the articles and advertisements appearing in THE CONTROLLER concern themselves with the most modern business devices, electronic computers, data processing, etc.

Would it not be in keeping to suggest a change in the magazine's format and especially its cover? We should not be bound by tradition in the one any more than in the other.

We change our control machinery as new developments, and better ones, are available. Surely it is a time for change in THE CONTROLLER.

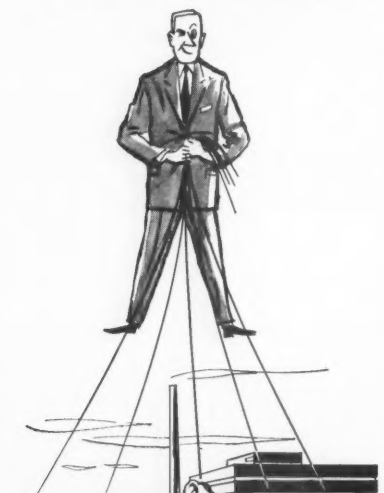
I would be interested in knowing whether other controllers feel as strongly about this as I do.

I. MARCUSE
Atlantic Design Company
Newark, N. J.

THE CONTROLLER *appreciates Mr. Marcuse's suggestion and can tell him along with other readers that although the present format has been commended for clear and attractive presentation of contents, revision is now being actively considered.*

—The Editors

How to EXPAND Clerical Controls Without EXPENDING for Extra Facilities



Today, there's no reason for any company to pass up the speed, savings and accurate business controls made possible by clerical automation.

STATISTICAL's low-cost data-processing service makes the advantages of automatic techniques available to any company—large or small.

If you do not have tabulating equipment, STATISTICAL provides the methods, manpower and machines to process the reports you need on a pay-as-used basis. This gives you all the benefits of electronic data-processing without the expense of installing more equipment and hiring extra help.

For companies with tab departments, STATISTICAL can help save time and money on overloads and special assignments, and supply computer service to tie in with conventional equipment for still greater economies. This computer service is also available for initial programming, for overloads or for continuing work that does not warrant your own installation.

Ask for brochures covering these specific services:

★ Computer Service
★ Sales Analysis
★ Inventories
★ Accounts Receivable and Payable
★ General Accounting
★ Production Planning
★ Payroll
★ Insurance Accounting
★ Association Statistics
★ Market Research Tabulations

stc
STATISTICAL TABULATING CORPORATION
Established 1933
TABULATING · COMPUTING · CALCULATING
TYPING · TEMPORARY OFFICE PERSONNEL

Write or phone for full details

General Offices:
53 West Jackson Blvd.
Chicago 4, Illinois
Phone: HArrison 7-4500

CHICAGO · NEW YORK · ST. LOUIS · NEWARK · CLEVELAND · LOS ANGELES · VAN NUYS
KANSAS CITY · SAN FRANCISCO · SAN JOSE · PALO ALTO · MILWAUKEE · PHILADELPHIA

A NEW APPROACH TO
BUDGETING
Write for Information
McCORMICK & COMPANY
Consulting Engineers
Park Building Yonkers, N. Y.

Time-Value Method Improves Investment Yield Calculation

David L. Carpenter

The advantages of isolating and dealing directly with the time dimension of receipts and expenditures

THE VOLUME of writing and the diversity of practice might suggest to some that too much theorizing has been done on the subject of how to calculate yields from industrial investments. To others, it suggests that more research on this important subject is needed. This article presents an approach to these problems and their solution that grew out of attempts to improve on existing methods.

First, it may be important to state that we are discussing here only a method of calculation. Investment evaluation is a much larger subject and includes many factors other than rate of yield. The prospective rate of yield may even be of minor importance in many investment decisions.

But yield calculations are useful. They give us a picture of the relation of benefit to investment that can be obtained in no other way. They permit comparison of the profitability of all prospective investments, and can guide our choice among them. Yield calculations also permit comparison of individual investment proposals with a standard to see whether they are or are not likely to conform with a firm's policy of new investment. A closely related calculation also permits comparison of alternative investments that will do the same job, a problem that frequently requires solution purely on the basis of comparative profitability.

What characteristics should yield calculations have in order to be useful in these ways?

First of all, they must give consistent results: the more desirable investment should always be indicated by a higher yield. Second, the calculation should be sensitive to all the significant variables. And third, the calculation should be readily performed and understood.

We intend to show that the time-value method of yield calculation has all three characteristics: consistency, sensitivity, and accessibility. But before discussing this method and how it works, let us take a general look at what investment is and what happens when we make a yield calculation.

An investment is a sum spent now for the purpose of generating benefits over future years. In industry, investments are predominantly expenditures for machinery and equipment or buildings which wear out or become obsolete in time. Such investments increase or decrease by large increments as sales volume or other factors require more or less capacity. Investment in inventories, receivables, and other elements of working capital rise and fall more frequently, but usually in smaller increments. Thus the typical pattern of cash flow caused by an industrial investment is irregular: it starts with a large outlay of cash, soon smaller cash amounts start flowing back in the form of added profits and (usually) depreciation tax credits; then, often, more outlays occur at various intervals. At the end of the life of a product or operation, the flow of cash stops.

The task of a yield calculator is to find a regular expression that will characterize this whole irregular series of events. This task has been performed in a number of ways. But, none of the ways we have studied satisfies us completely with regard to the characteristics that we mentioned above: consistency, sensitivity, and accessibility.

EXISTING METHODS

Many papers have been devoted to the subject of the weaknesses of existing methods of yield calculation. We wish to avoid repeating this work. But a few lines are necessary to show that none of the existing methods has all three essential characteristics.

Let us look first at one of the most useful and versatile methods: discounted cash flow. *Is this method consistent, sensitive and accessible?*

DAVID LYON CARPENTER, senior analyst and unit chief in the Analysis Department of Johns-Manville Corporation, New York, graduated from Yale University with a degree in Economics. He began his career with Johns-Manville in 1947 as a technician in the controller's office of the Building Products Division. In 1953 he transferred to the Manville New Jersey plant where he served as senior cost accountant and cost unit supervisor. He returned to New York in 1955 as an analyst in the Analysis Department and was appointed to his present post in 1958. Mr. Carpenter was instrumental in adapting the discounted cash flow method of investment appraisal for Johns-Manville operations and was prominent in its introduction to financial and engineering personnel at headquarters and various J-M plant and mine locations. He has taught economics at the Rutgers University evening school.

Unfortunately, discounted cash flow can be challenged on the first and third counts. In a discounted cash flow solution, a single rate is derived by discounting all future cash in and out flow back to present worth. By trial-and-error methods, we find the rate that results in equal present worth of income and expenditure.

Using the DCF method, therefore, the relative weight given to each year's income or expenditure is determined by the rate of yield of the individual project. This presents a problem in comparing proposals that differ significantly in time-pattern of cash flow: DCF solutions can only evaluate these differences at project rates. In many such cases, the project rate may be quite different from the rate that represents a firm's time preference or time value of money. Thus, one of the basic functions of yield determination, comparison of the desirability of various investments, is impaired.

In addition, the need to use trial-and-error calculations for DCF solutions reduces the accessibility of the method. The trial-and-error process is an obstacle both to its understanding and application; not insurmountable, but still an obstacle.

All methods of yield calculation other than DCF and its relatives have the disadvantage of failing to recognize time value of money. These methods usually find average yield over the life of an investment without giving any greater weight to receipts or expenditures in the near future over those farther in the future. Therefore, solutions by these methods are not affected by differences in time pattern of cash flow. They fail, then, because of their lack of sensitivity.

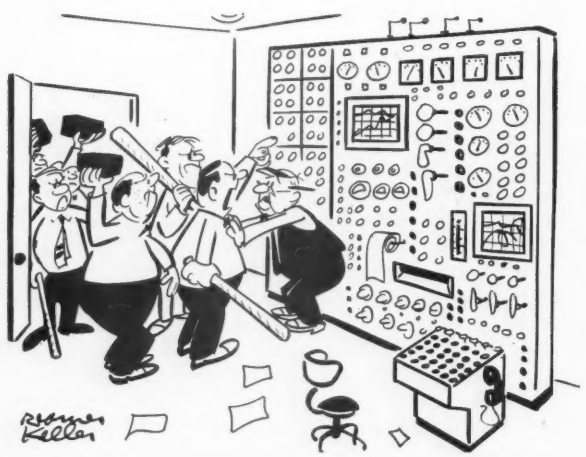
Other methods of investment evaluation, such as pay back or present worth, do not express solutions in terms of rate of yield. Even when these methods are sensitive to time patterns, as is the present worth method, they fail on the count of accessibility. Annual rate of yield is still the only commonly understood measure of investment profitability.

TIME-VALUE METHOD

But, enough of these critical remarks; let us take a look at the time-value method and see what it is all about and whether or not it does meet the standards we have set.

The method is called time-value because it isolates and deals directly with the time dimension of receipts and expenditures. The name "time-value method" also calls attention to the unique characteristic that makes investment different from other types of expenditure: the difference in timing between expenditure and related income. It is also true that the unique problem in calculation that must be coped with in investment evaluation is this separation in time of cost and benefit.

What happens when we isolate the time dimension of an investment problem? And how do we do it? What happens is that we deal directly and easily with the aspect of investment problems that makes them difficult or complex. This permits a simple comparison of cost and benefit. To do this, we need first a means of expressing time value and then we need to know what this value is for particular situations.



"This is the fourth time in a row it's won the baseball pool!"

MEANS OF EXPRESSING TIME VALUE

Let us look at the simplest case of isolating the time dimension of an expenditure. This is the case of pure interest, say, money in a savings account. Here risk is at a minimum, and the invested amount is accessible at any time. The only thing given up is use of principal for a time period. Few would contest the usual calculation that relates benefits to investment in this example, and thus measures the compensation for use of funds for a time: simply divide annual income by the principal and express the result as a per cent rate of yield. Now this familiar and easy concept of annual rate of yield gives us a device with which we can express time value of money.

Using this device, we can express preference for sooner rather than later receipts and later rather than sooner expenditures as a single figure, say 5% a year, after taxes. A time-value rate of 5% means that it is a matter of indifference to a firm whether it receives $1.00 now, or $1.05 a year from now. Obviously, such a rate can be used to find the amount in any one time period that would be just as acceptable to a firm as a given amount in any other time period. And therein lies its usefulness to us as we will see a little further on.

DECIDING ON TIME-VALUE RATES FOR A FIRM

It seems reasonable to believe that time-value rates would be something characteristic of a firm, and would not change with every investment situation. To get the benefits of the time-value method of yield calculation, a firm must decide in advance what its time-value rates are. This is a critical and difficult decision.

But it is not a rigidly limiting decision. The major factors that must be considered in making it are availability and cost of capital. But many other factors can be reflected. For example, management may believe that risk is a function of time to some determinable extent; this can be recognized by an appropriate upward adjustment to the rate. Where some allowance for risk is built into the time-value rate, different time values can be used for different types of investment. For some types of investment, the time-value rate and the minimum acceptable rate may be considered to be the same. Each firm, of course, can decide the expression and variety of time-value rates that best suit its needs.

For any who balk at making the decision of time-value rate, it can be pointed out that not making such a decision does not avoid the problem. Time value of money is a factor in any investment proposal. Avoiding a general determination of this rate merely means that time value must be reconsidered as each proposal is appraised. This means there is probably a lack of consistency in the time value used. As with many other types of problems, if we can use general criteria to solve a part of the problem in advance, the later solutions to individual cases are simplified.

Let us assume that the issue has been faced and the decision made. We have a means of stating time value, and know what that value is. We now have a most useful tool to aid us in evaluation of investments.

What is this tool?
How does it work?
And what good is it?

WHAT IS A TIME-VALUE RATE?

A time-value rate is a means of calculating equivalents. If our rate is 5%, $1.00 now is the equivalent of $1.05 a year from now. Each is equally acceptable to the firm, and if it aids the solution to a problem, we can re-state $1.05 a year from now as $1.00 now or vice versa, without any effect on the validity of the solution. A simple example may help to illustrate the usefulness of this device.

Should we pay $750 now for a two-year insurance policy, or pay $400 in advance, each year?

Assuming we are certain to want to continue the insurance for at least two years, there is no risk; it is a pure time-value problem. The alternatives are pay $750 now or $400 now and again one year from now. If our time-value rate is 5%, the present equivalent of the second $400 is $400 ÷ 1.05 or $381. Thus, the present equivalent of annual payments is $400 plus $381 or $781. As the $750 cost of a two-year policy is less, it is preferred.

But calculating present equivalent of future amounts or future equivalent of present amounts is only the beginning of what can be done with the time-value tool. In fact, this tool allows us to determine the present or future equivalent of income or expenditure in any imaginable time pattern and to re-state that equivalent in any other time pattern that suits our purpose. We can find the present equivalent of irregular income, for example, and then find the level or regular annual equivalent of that, thus transposing a very irregular problem into a simple, regular one.

It is evident that certain tables will be helpful in finding these equivalents. There are five that will probably satisfy all our needs in this area:

1. Present equivalent of a single future amount.
2. Present equivalent of an annual amount.
3. Annual equivalent of a single present amount.
4. Annual equivalent of a single future amount.
5. Future equivalent of a single present amount.

Tables are available* that cover each of these types of equivalent. Below is a sample of each, numbered as above, and shown only for a time-value rate of 5% (after taxes).

EQUIVALENT TABLES @ 5%

Year	*1*	*2*	*3*	*4*	*5*
1	.95	.95	1.050	1.000	1.05
2	.91	1.86	.538	.488	1.10
3	.86	2.72	.367	.317	1.16
4	.82	3.55	.282	.232	1.22
5	.78	4.33	.231	.181	1.28
6	.75	5.08	.197	.147	1.34
7	.71	5.79	.173	.123	1.41
8	.68	6.46	.155	.105	1.48
9	.64	7.11	.141	.091	1.55
10	.61	7.72	.130	.080	1.63
11	.58	8.31	.120	.070	1.71
12	.56	8.86	.113	.063	1.80
13	.53	9.39	.106	.056	1.89
14	.51	9.90	.101	.051	1.98
15	.48	10.38	.096	.046	2.08

Using *Table 1*, we find a time-value rate of 5% means that the present equivalent of $1 to be received ten years in the future is $.61. Thus, $.61 now may be substituted for $1, ten years from now, if doing so aids the solution to an investment problem. *Table 2* tells us that $7.72 is the present equivalent of $1 a year for ten years. *Table 3* is the reciprocal of *Table 2* and tells us, for example, that $.13 a year for ten years is the equivalent of $1 now, again using a time-value rate of 5%. *Table 4* gives us the means of re-stating future requirements in terms of annual amounts. Thus, the equivalent of recovering $1 at the end of ten years is $.08 a year for the ten-year period. *Table 5* is the reciprocal of *Table 1* and tells us that $1 now is the equivalent of $1.22 four years from now, $1.41 seven years from now, or $1.63 ten years from now.

You will recognize here tables that are familiar to you under other names. *Tables 1* and *2* are present value tables such as are commonly used with discounted cash flow. *Table 3* is the annuity that $1 will buy. *Table 4* is sometimes called a sinking fund table or annuity for renewal. *Table 5* is simply the compound amount of $1. *(Continued on page 464)*

* These tables are similar to those included in *Principles of Engineering Economy* by Eugene L. Grant, professor of Economics of Engineering, and W. Grant Ireson, professor of Industrial Engineering, Stanford University, published by the Ronald Press Company, New York.

EXPLANATION OF TABLES

R = Rate of yield on investment per year
n = number of years
P = Present sum of money
F = Future sum of money that is equivalent to P with rate of return R compounded for n years.
L = Level annual (end of year) payment or receipt continuing for n years, the entire series equivalent to P at a rate of return R.

Table 1

To find present equivalent (P) of a single future amount (F).

$$P = F\left[\frac{1}{(1+R)^n}\right]$$

Table 2

To find present equivalent (P) of a level annual amount (L).

$$P = L\left[\frac{(1+R)^n - 1}{R(1+R)^n}\right]$$

Table 3

To find level annual equivalent (L) of a single present amount (P).

$$L = P\left[\frac{R(1+R)^n}{(1+R)^n - 1}\right]$$

Table 4

To find level annual equivalent (L) of a single future amount (F).

$$L = F\left[\frac{R}{(1+R)^n - 1}\right]$$

Table 5

To find future equivalent (F) of a single present amount (P).

$$F = P\,(1+R)^n$$

These formulas are based on the concept that the timing of P is at the start of a year (or at year zero); the timing of L is at the end of each year; the timing of F is at the end of n years.

This, then, is the nature of the tool: a predetermined time-value rate makes it possible to re-state a problem with the pattern of income and expenditure which is the most easy to appraise.

HOW DOES IT WORK?

The example of an insurance policy in the preceding section is not typical of how the time-value method works. That problem, being one of pure time value, required no yield calculation and was used only to illustrate what a time-value rate is.

A more typical, but still simple, industrial investment problem might be stated:

Should we buy an additional fork-lift truck and reduce manual handling of raw materials?

The truck would cost $10,000. A saving of one man's wages, less the cost of fuel and maintenance for the truck would increase earnings by $3,000, before taxes and depreciation. Estimated life of the truck is ten years.

The first step is to find the cash flow change that will result from this investment. To keep this example simple, we will assume straight-line depreciation. The increase in annual cash income is calculated as follows:

Saving in wages, less truck operating cost	$3,000
Less: depreciation ($10,000—ten years)	1,000
Saving before taxes	2,000
Less income taxes (@52%)	1,040
Net saving	960
Add back depreciation	1,000
Increase in annual cash income	$1,960

Now comes the time-value adjustment to make this problem easy to evaluate. Remember, we said that a time-value rate makes it possible to re-state a problem as it would be if the time pattern of income and expenditure were the most easy to appraise. The most easy pattern to appraise is that of a savings account: principal is invested, regular income received, and principal is withdrawn.

What is needed in our present example, then, is to provide for the return of the principal amount ($10,000) at the end of life. This could be done most readily by finding the annual amount that is just equivalent to $10,000 ten years hence and deducting that amount from annual cash income.

. . . . . .

small shots

"Of course I love you—why else would I go to all the trouble of checking your financial rating?"

The annual equivalent of a future amount can be found using *Table 4*. If again, we accept a 5% time-value rate for the purposes of illustration, the annual amount that is just equivalent to $10,000, ten years hence, is .080 × $10,000, or $800. Now we can reduce annual cash income by $800, leaving ($1,960 — $800) or $1,160 and consider that recovery of the investment at the end of life has been provided for. The yield is simply calculated by dividing annual cash income, net of equivalent of recovery at end of life, by investment. The answer is $1,160 ÷ $10,000 or 11.6% (after taxes).

The value of this simple approach to a sensitive yield calculation is much more evident in a more complex problem. The solution to such a problem, which includes expenditures in different years and changing working capital requirements, is shown on page 466 following this article.

TIME-VALUE VS. SINKING-FUND METHODS

Anyone familiar with the sinking-fund method of yield calculation will recognize that the above solution is the same as that by the sinking-fund method. But there are two important differences between the time-value and sinking-fund methods. First, the time-value method does not contemplate any fund for recovery of investment or for renewal. The correctness of the annual provision for recovery we use depends directly upon the theoretical validity of the time-value approach and the time-value rate used. This means that we do not have to indulge in the rationalization that the annual provision for recovery, if reinvested at the time-value rate, would grow to equal the expenditure to be recovered by the end of its useful life. Of course, such a statement would be true for any time-value solution. But dependence on this view obscures the essentially theoretical nature of this and all other yield calculations.

Acceptance of the theoretical nature of yield calculations is acceptance of their true nature. As stated earlier, industrial investments are irregular phenomena; a yield calculation is a regular characterization of an irregular event, and thus is unavoidably artificial or theoretical in nature. Our job is to choose the theoretical basis for the calculation that is most consistent with the facts of industrial enterprise. This is the attempt of the time-value method.

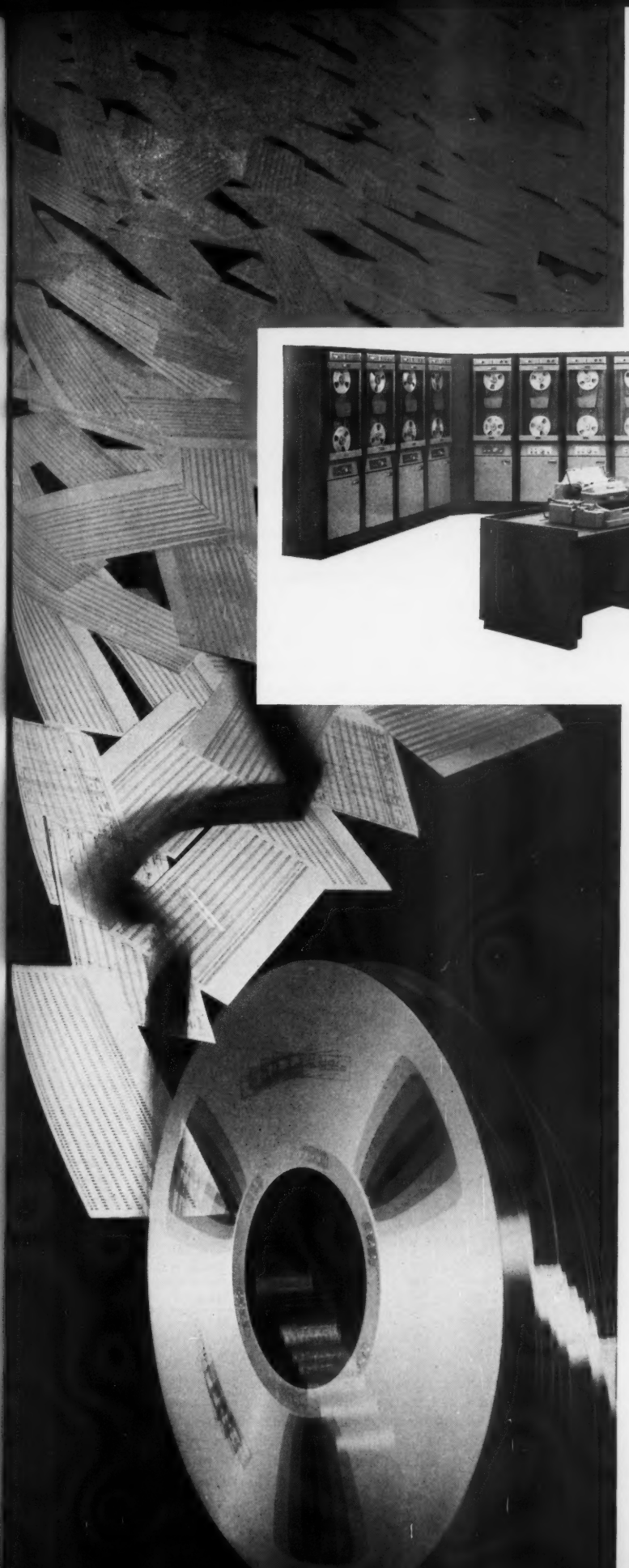
The second difference between time-value and sinking-fund methods is that the time-value method uses a predetermined rate to adjust for all irregularities that exist in an investment problem. Thus, if income were irregular, we would use the time-value rate to find its regular equivalent and then proceed as above. If investment expenditures occurred at several different times, we would use the time-value rate to find their equivalent at a single point in time.

This aspect of the time-value method is illustrated by a somewhat more complex example: Suppose that we want to find the yield on investment in automatic packaging machinery for a product that is expected to increase in sales volume over the life of the equipment. Savings would be a function of volume and would vary from year to year. Leaving out the preliminary steps in our calculation, cash flow might be as follows:

Year	*Expenditure*	*Increase in Cash Income*
0	$60,000	
1		$10,000
2		11,000
3		12,000
4		13,000
5		14,000
6		15,000
7		16,000
8		17,000
9		18,000
10		19,000

Again, using 5% after taxes as our time-value rate, we would first adjust the irregular cash income to its regular equivalent:

(Continued on page 466)



World's *fastest* sorting system

PHILCO 2000 Data Processing System

The majority of all data processing involves sorting. Time saved on this operation is always significant—the answers you need become available more quickly; the equipment itself is freed for other use.

The inherent speed and capacity of the Philco 2000 are your assurance of highest possible sorting speed—faster than any other sorting system! For example, *the Philco 2000 has sorted 100,000 80-character records, having a 16-character key, in 18 minutes!*

Such high sorting speed can be obtained on any Philco 2000, regardless of size, without additional sub-systems. One of the many programming aids provided by Philco is a powerful Sort Generator program.

Call or write to arrange a test run of one of your sort problems on the Philco 2000 Data Processing System.

Philco Corporation • Government and Industrial Group
Computer Division, 3900 Welsh Road, Willow Grove, Pa.

PHILCO®

Famous for Quality the World Over

Year	Increase in Cash Income	Present Equivalent Factors (Table 1)	Present Equivalent of Cash Income
1	10,000	.95	9,500
2	11,000	.91	10,010
3	12,000	.86	10,320
4	13,000	.82	10,660
5	14,000	.78	10,920
6	15,000	.75	11,250
7	16,000	.71	11,360
8	17,000	.68	11,560
9	18,000	.64	11,520
10	19,000	.61	11,590
Total present equivalent of cash income			108,690

To find the regular equivalent for ten years of a single present amount, we use a factor of .130 from *Table 3*.

$$.130 \times 108{,}690 = \$14{,}130$$

Now we know that the irregular cash flow can be re-stated as $14,130 a year for ten years. From there on, the solution is the same as in the previous example. We again find the level equivalent of recovering our expenditure over ten years by using a factor of .080 from *Table 4*. In this case, the provision for recovery is .080 × $60,000 or $4,800 a year. Deducting this from the level equivalent of cash income ($14,130 — 4,800), we have $9,330 a year left. Yield is found by relating this directly to investment and comes to ($9,330 ÷ 60,000) or 15.6%.

The complete solution to a problem with irregular income as well as other irregularities appears in the next column.

WHAT GOOD IS IT?

Some have had difficulty in accepting the time-value method of yield calculation because every solution involves two rates. First, there is the predetermined time-value rate used to find a regular, simple equivalent statement of a proposal. Second, there is the rate of yield of the proposal itself.

The answer to this difficulty is that two rates are needed to express two different things. The first is a firm's preference for sooner income and later expenditure. This time preference must be used to determine the relative weight given to different years' cash flow, for this preference is characteristic of the firm, not of an individual project. The second, of course, is the rate of the project itself.

Only by recognizing this distinction and the need for two rates can consistent results be obtained. If the project yield is also used to determine the relative weight of various years' income and expenditure, the project rate becomes also the determinent of time value in each solution. But project rates vary from project to project, while a firm's time preference does not. Thus, it is by use of two rates that the first of the requirements that we set out to meet, consistency, is achieved.

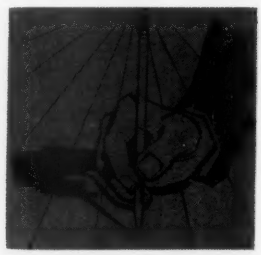
The second requirement, sensitivity, also is met. The timing of every element of cash flow is recognized and appropriate weighting is given by means of the time-value rate.

The third requirement, accessibility, is also met, at least to a greater extent than for any method of equal sensitivity. The fact that the end product of our calculation is an annual rate of yield is the first evidence of this. Second, a minimum of table data must be used, the only rates we are concerned with in using tables being the time-value rates. Third, each solution may be followed through to the end rate without the necessity for trial-and-error techniques.

YIELD FROM PAST OPERATIONS

One of the drawbacks of the discounted cash flow method is the difficulty of calculating yield from past operations in a way that is consistent with yield calculations for new proposals. A by-product of the time-value approach is that it can be used for both calculations.

The process of using the time-value approach for past operations is the same as that for calculating yield on a simple investment proposal by this method. First, find net cash income, then deduct the level annual equivalent of recovering the wearable portion of the investment. Total investment is the (undepreciated) cost of wearable facilities plus net working capital. Net cash income less level annual requirement for renewal divided by this investment gives us the yield.



EXAMPLE OF CALCULATING YIELD BY THE TIME-VALUE METHOD FOR A COMPLEX INDUSTRIAL INVESTMENT PROBLEM

Problem: Product Line A is well established and growing at 5% a year in eastern and midwestern markets. No attempt is made to sell on the West Coast as freight cost would eat up the profit on this bulky material. Only one competitor now produces on the Coast and he has 85% of the market there. *What would be the yield on investment in facilities for this product in California?*

Forecast: With intensive selling effort, we could get 25% of the West Coast market in five years. Our growth rate during this period would be at the rate of 10% a year. After five years, the rate of growth would fall to the industry's 5% and continue at that rate for ten more years. No growth is predicted after 15 years. The sales forecast in dollars is as follows:

Year	Sales
1961	$1,000 M
62	1,100
63	1,210
64	1,330
65	1,460
66	1,530
67	1,610
68	1,690
69	1,770
70	1,860
71	1,950
72	2,050
73	2,160
74	2,270
75 on	2,380

Plan of action: As existing plants have excess capacity, sales for the first three years will be made from warehouses on the West Coast. These sales will result in a net loss, but will bring volume up to the level of economical operation of the new plant. Losses during this period including extra selling costs, are estimated as follows:

	Losses from Warehouse Operation	
Year	Before Taxes	After Taxes of 50%
1961	$100 M	$50 M
1962	110 M	55 M
1963	120 M	60 M

Starting in the fourth year, plant operations will supply the market. Capacity will be sufficient for the entire period.

Profit from Operations: Start-up costs at the plant are expected to be equal to profits the first year of plant operation. But, starting in the second year, gross profit of 35%, less selling and administrative costs of 11% of sales, leaves profit before

taxes of 24%. This per cent profit will increase as depreciation becomes smaller relative to growing sales and profits.

Investment in Facilities: Plant and equipment cost are estimated at $1.5 million. Land will be rented under a 99-year lease. Working capital requirements are estimated to vary directly with sales and to start at $200,000 in the first year of warehouse shipments. We have, therefore, taken working capital investment at 20% of sales.

The nature of the manufacturing process requires a three-month shut down and rebuilding of ovens once every seven or eight years. The cost is about $700,000 and may be charged to expense. We have included this cost ($350,000, after taxes of 50%) as part of investment in plant and equipment and assumed it will occur in 1970. We have chosen to analyze this problem assuming a 15-year life of plant and equipment. (Note: At the end of expected life, or about the 15th year, a decision will be required whether to overhaul, replace or do something else.)

Cash Flow: As our evaluation method requires re-stating all investment expenditures as they would be at one point in time, we must first select that point. To minimize the effect of our time adjustments, we generally choose the point of the major expenditure and call this year "0".

INVESTMENT EXPENDITURES

The investment expenditures, described above, would then be summarized and re-stated at the end of 1963 as year "0" (again assuming a time-value rate of 5%) as follows:

Year	Warehouse Losses	Plant Equipment	Working Capital Increments	Total	Time-Value Factor	Worth at Year "0"
1961 −2	$50 M		$200 M	$ 250 M	1.10	$ 275 M
62 −1	$55		20	75	1.05	79
63 0	60	$1,500 M	22	1,582	1.00	1,582
64 1			24	24	.95	23
65 2			26	26	.91	24
66 3			14	14	.86	12
67 4			16	16	.82	13
68 5			16	16	.78	12
69 6			16	16	.75	12
70 7		350	18	368	.71	261
71 8			18	18	.68	12
72 9			20	20	.64	13
73 10			22	22	.61	13
74 11			22	22	.58	13
75 12			22	22	.56	12
76 13			0	0	.53	0
77 14			0	0	.51	0
78 15			0	0	.48	0

Total worth of investment at year "0"—$2,356 M

CASH IN-FLOW

Again using the time of the major investment expenditure as year "0", cash in-flow would be presented as follows:

Year	Sales	Profit Before Taxes	Profit After Taxes	Add Back Depreciation	Net Cash In-Flow	Time-Value Factor	Worth at Year "0"
1964 1	$1,330 M	$ 0	$ 0	$100 M	$100 M	.95	$ 95 M
65 2	1,460	350 M	175 M	100	275	.91	250
66 3	1,530	370	185	100	285	.86	245
67 4	1,610	400	200	100	300	.82	246
68 5	1,690	420	210	100	310	.78	242
69 6	1,770	450	225	100	325	.75	244
70 7	1,860	470	235	100	335	.71	238
71 8	1,950	500	250	100	350	.68	238
72 9	2,050	530	265	100	365	.64	234
73 10	2,160	570	285	100	385	.61	235
74 11	2,270	600	300	100	400	.58	232
75 12	2,380	630	315	100	415	.56	232
76 13	2,380	630	315	100	415	.53	220
77 14	2,380	630	315	100	415	.51	212
78 15	2,380	630	315	100	415	.48	199

Total worth of cash in-flow at year "0"—$3,362 M

RECOVERY OF INVESTMENT

All investment expenditures must be recovered except those for working capital. Investment in working capital is always accessible and needs no special provision for recovery. Level annual provision for recovery is calculated as follows:

Year	Warehouse Losses	Plant & Equipment	Total	Time-Value Factor	Worth at Year "0"
1961 −2	$50 M		$ 50 M	1.10	$ 55 M
62 −1	55		55	1.05	58
63 0	60	$1,500 M	1,560	1.00	1,560
64 1					
65 2					
66 3					
67 4					
68 5					
69 6					
70 7		350	350	.71	249
In years 1971 through 1978 (years 8 through 15) no additional expenditures to be recovered.					
Total worth at year "0" of expenditures to be recovered					$1,922 M

Rate of Yield: We now know the worth at year "0" of investment ($2,356M) cash in-flow ($3,362M) and expenditures to be recovered ($1,922M). The next step is to calculate the level equivalent of cash income and of the requirement of recovery. Using the life of plant and equipment, 15 years, and a time-value rate of 5%, the factor for level equivalent of income is .096 *(Table 3)*, and the factor for level recovery of investment is .046 *(Table 4)*. Annual requirement of recovery is deducted from annual equivalent of cash income:

Income	$3,362 M × .096 =	$323 M
Less: Recovery	1,922 M × .046 =	88
		$235 M

Thus, the level equivalent of cash income after deducting level requirement of recovery is $235 M a year for 15 years. To find yield, we divide by the worth at year "0" of investment:

$$\frac{\$235\ M}{2{,}356\ M} = .100$$

The rate of yield is 10.0%, after taxes.

"He's right, J. B. After two solid weeks of faithful service with the company, it's high time we reconsider a salary adjustment for the boy!"

What Does Management Want of Accounting?

The demand for more meaning, clarity and timeliness in reports, and the need for new breakthroughs in accounting concepts and techniques

John O. Nicklis

THE SPECIAL RELATIONSHIP which accounting has, or should have, with general management in the field of control and policy makes an easy introduction to the areas in which management expects something from its accounting—beyond its regular and routine operations. I believe that what management wants from its accounting can be stated broadly in three very short questions:

1. *What has happened—and why?*
2. *What is happening—and why?*
3. *What's going to happen—and why?*

While these questions are stated in chronological order, they are not necessarily given in the order of their importance. In fact, they are probably stated in reverse order of importance. *What has happened,* although the source of much of the information needed to determine *what is happening* and *what's going to happen,* is the least important of the three. The other two are of nearly equal importance, but I think the "look ahead" has to be ranked first.

However, the most logical way to consider them is in the order given as it is only from what has happened that we can determine what is happening, and from these two predict what's going to happen.

THE HISTORICAL RECORD

Now, as to what has happened, I think the needs of management can be stated fairly simply. Management wants to know how the company has done in the period under review, be it month, quarter or year, and wants these results compared with prior periods and with the company's objectives. Next, management wants to know the reasons for the change from the prior period and for any deviations—good or bad—from the forecast. It is in this area of reasons that we encounter our greatest problem in reporting on what has happened.

First, it is not enough to report that profits were up so many dollars from the prior period and let it go at that.

What was the margin on sales as compared with the margin in the prior period?

Why was it up or down?

Was it because of higher or lower sales, higher or lower costs, or both?

What special or unusual factors were involved? What trends are indicated?

In short, the basic question to answer is not what has happened, but why has it happened. All this probably seems fairly elementary. Nevertheless, I am concerned at the number of good accountants who seem to feel that the job is done when the figures add up, the dollar signs have been put in the right places, and the whole package neatly typed for presentation. It just isn't good enough. Figures don't speak for themselves; they have to be made to talk.

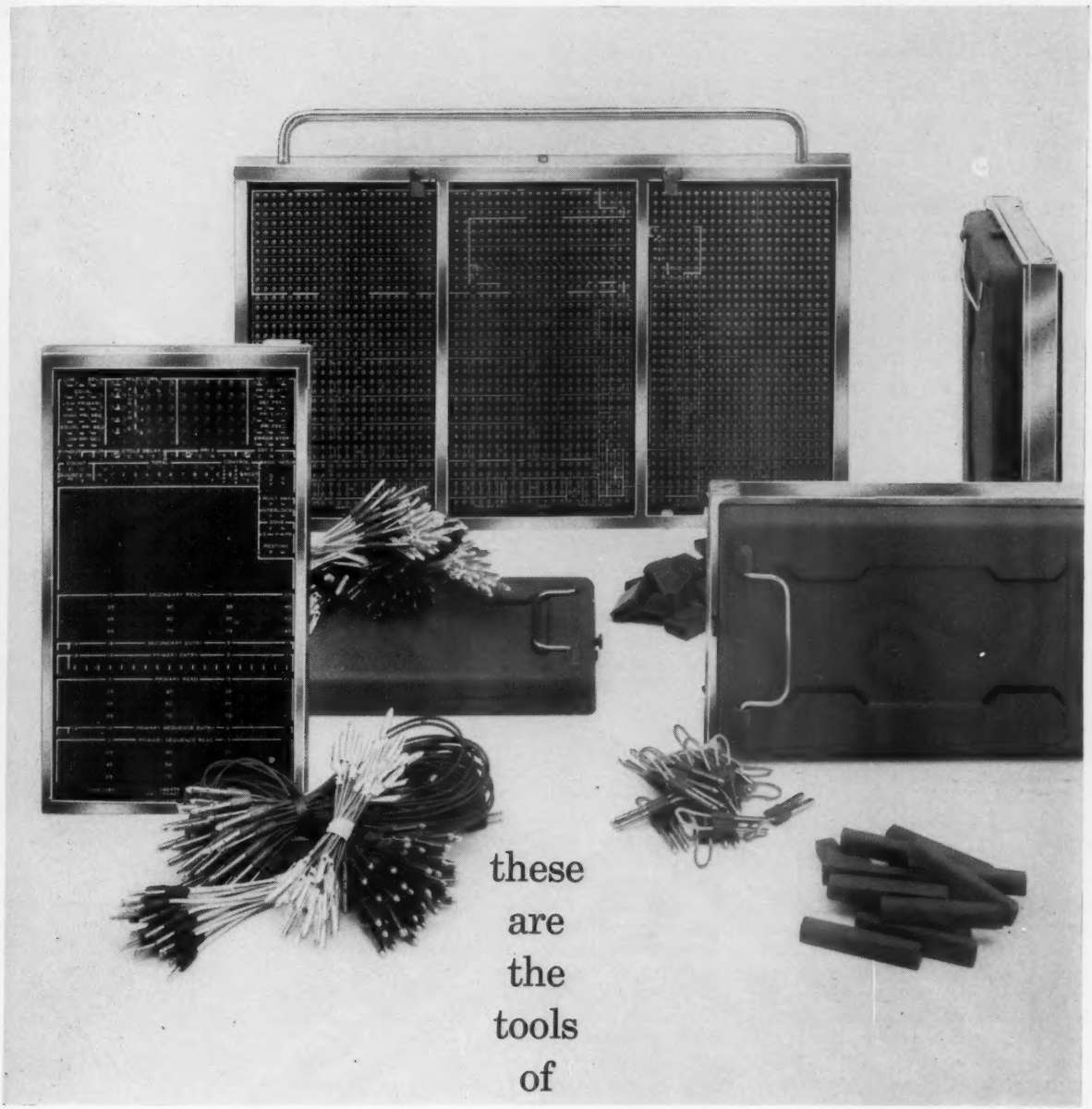
Second, in reporting what has happened, I believe that accountants do not spend enough time in trying to simplify their presentation. All too many reports contain page after page of text, exhibits and comparisons, all carefully done and leading to logical conclusions, but, it's awfully hard to find the meat in the coconut. There's just too much husk and shell around it, and most executives either haven't got, or won't take, the time to dig it out. We must tear off the husk, break the shell, dig out the meat, shred it, sprinkle it on top of the cake, and serve it up so that it can be eaten, digested and enjoyed rapidly.

Third, in reporting what has happened, I think we all too often make incomplete or erroneous deductions from the figures as a result of superficial or inadequate investigation occasioned by intellectual laziness or a too-easily-satisfied curiosity.

Of course, I realize that we all have plenty to do and cannot painstakingly chase back every figure in a financial statement in order to be sure that we have the precise reason for its deviation from the budget or its change from the prior year. However, there are certain important figures in every operating report which must be investigated thoroughly, and interpreted accurately, if we are not to risk misleading management to the detriment of its decisions. In the interpretation of these figures, the eternal question, *Why?,* should always be uppermost in our minds. It is not sufficient to go back to the first and easiest explanation and to stop there. We must go behind that one to the next, and behind that one to the next, and so on, until we reach the point at which we can safely say to ourselves, "This one is buttoned up. This is what happened, and

(Continued on page 470)

JOHN O. NICKLIS is vice president for finance of Pitney-Bowes, Inc., Stamford, Conn. He started with the company as an accountant in 1945 and successively held the following posts: Estimating and budgeting assistant to the executive vice president, assistant treasurer, assistant secretary, treasurer, secretary, and then assumed his present position in 1959. Prior to joining Pitney-Bowes he was staff accountant for the Stamford Rolling Mills for three years. This paper is based on a talk given before the Bridgeport Control of Controllers Institute.



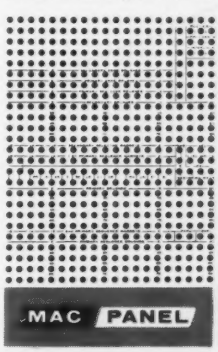
modern management!

Ever since man has had a job to do, he has found tools to help him do it easier. You, as part of a modern management team, are just as vitally interested in finding and using the tools that will create greater efficiency in all phases of your operation.

MAC Panel Company is a leading producer of quality control panels and components . . . a complete selection of precision-engineered products for use with IBM Punched Card and Data Processing Equipment. These are the tools that have been designed to perform jobs that benefit your entire organization.

All of the 36 billion-dollar businesses in the United States as well as thousands of other companies already look to MAC Panel for products that assist their companies in the methods of modern management.

For a catalog illustrating the complete line of MAC Panel products and more information concerning how MAC Panel can help you in your business, write today!



MAC PANEL COMPANY • HIGH POINT, N. C.

Branch Offices in: New York, New York / San Francisco, California
Representatives throughout the United States, in Canada, and Latin America

here's why." Only then can we feel that we have done our job in reporting to management on what has happened.

Unfortunately, considerable time can elapse between collecting the information on what has happened, assembling it, analyzing it and serving it up. In such circumstances it can be pretty stale fare without much nourishment to be derived from it. This is particularly true in present-day manufacturing, where cost information that is not produced concurrently with actual operations is almost useless for control purposes. Thus, our problem is to turn data on what *has* happened into information on what *is* happening, and to find the means of conveying it to management while it is still happening.

THE CURRENT SCENE

Here, we have made, and are making, some important strides. Tabulating equipment is in fairly general use in large and medium-sized organizations—even in some relatively small ones—and we are heading into a period where electronic data processing, particularly with the advent of less costly medium-scaled computers, will become available to many of us. Moreover, systems and procedures departments are coming into their own as a vital part of the accounting organization. These two developments have done a lot to speed up our reporting, but we are still awfully slow in some areas, and I believe that we have tended to be somewhat more cautious than necessary in moving into electronic data processing. I rather incline to the belief that our slowness stems from the fact that the expenditures involved in some of these things are much larger than those we are accustomed to making on our own, although we are quite accustomed to recording tremendous expenditures by our production, engineering and sales organizations. To us, the expenditure of a few thousand dollars for a bookkeeping machine has seemed like a pretty heavy proposition. Now, however, we are faced with major capital expenditures, or long-term lease agreements, plus substantial programming and conversion costs as a prerequisite to the use of electronic equipment, the economics of which is extremely difficult to evaluate. I am sure that some of us are delaying a study or a decision because the risks are so much greater than the ones we are used to taking.

Once we have prompt information on what is happening, we must still report it to management, and here is where a lot of time is lost. It doesn't do too much good to get figures off of a high-speed printer or a tabulator run if somebody is going to sit on them for a week and a half waiting for them to hatch before interpreting them and issuing the needed report. This is a bottleneck we can all do something about without waiting for expensive equipment to do it for us. I'm speaking of the plain, everyday, ordinary inertia that affects all organizations, particularly as they get larger. This emphasis on speed may seem highly inconsistent with my earlier remarks about careful analysis and investigation, but I believe we must have the speed, too. The only solution to this is to get men for this work who, in addition to thorough grounding in the fundamentals of accounting, have quick, flexible and analytical minds. Unfortunately, they are not easy to find, but we must have them.

In passing, I might say here that one time-consuming flaw still fairly prevalent in report preparation is rounding off too late and at too low a level. Some years ago we began dropping the pennies out of our accounting and have been preening ourselves like peacocks ever since. Actually, about 90 per cent of the reports that I see could have the units, tens and hundreds of dollars dropped out in addition to the pennies without any loss of effectiveness whatsoever. This point is not terribly important in itself, but it does tend to point up a rigidity and narrowness of concept as to the essential purpose of an operating report. One hopeful sign is that more and more controllers are using slide rules instead of their old eight- or ten-place calculators. A lot of time can be saved in preparing a report by knowing when to eliminate detail, round off figures and even sacrifice complete accuracy in order to save a half day's time.

LOOKING FORWARD

So much for some of the things that we can do about what has happened and what is happening. Now we come to the question which I believe to be most important of all—What's *going* to happen. I'm sure many of you are braced for the familiar routine about forecasting and budgeting. Well, I am referring to these two very important tools for determining in advance what's going to happen, but I'm going to cite the attitude of top financial management toward the future. All too many times the attitude seems to be, *"Why should I look ahead and put my predictions down on paper?* I'll only be sticking my neck out. If it doesn't come through I've got a lot to explain, so I'll play it safe." I must reject this line of reasoning as unworthy of the financial management of a company. Our job is just as much and even more to look ahead as it is to keep track of what's been happening. We, above everybody else in the company, except the engineering group, should be planning for the future. Long-range sales planning is primarily limited to the organization and training of the sales force, with sales effort and concentration limited to the near-term. Production, similarly, usually has so many problems of the moment that its attention to

(Continued on page 472)

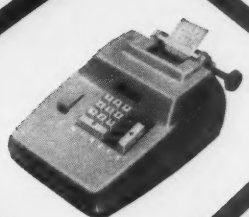
FINANCE AND CONTROLLERSHIP FUNCTIONS

1. Determine financing needs
2. Negotiate loans
3. Prepare cash forecasts
4. Maintain accounting records
5. Maintain records of cash transactions
6. Have custody of funds and securities
7. Prepare profit and loss statements
8. Prepare annual report
9. Prepare operating reports
10. Prepare and interpret expense budgets
11. Prepare federal, state, and local tax returns
12. Prepare statistical and other reports for outside agencies
13. Secure collection of monies owed
14. Determine insurance needs
15. Maintain insurance records
16. Maintain physical inventory records
17. Conduct internal audits
18. Conduct cost accounting studies
19. Prepare cost estimates
20. Prepare payrolls
21. Conduct cost analyses
22. Check invoices before payment
23. Control petty cash
24. Sign checks

—EXCERPT from appendix to *Financial Incentives for Management* by Richard C. Smyth, published by McGraw-Hill Book Company, Inc.

Another Achievement from Monroe

Compacted into a dynamic design not much larger than your telephone is Monroe's latest conversation-piece among business-machine engineers. Astonishing speed distinguishes this 10-key Adding Machine — one of the famous **Monroe Series E** with the "Velvet Touch". Cycling at 250 milliseconds, it will outpace and outproduce any machine of its kind. With its repeat key directly over the plus bar, it's a one-handed, sure-handed multiplier, too — even for the beginner. And its trouble-free durability rarely if ever needs the Monroe nationwide service organization that backs its guarantee. The Series E genuinely means ease, efficiency, economy — its surprisingly low price will save you up to one-third when you buy.



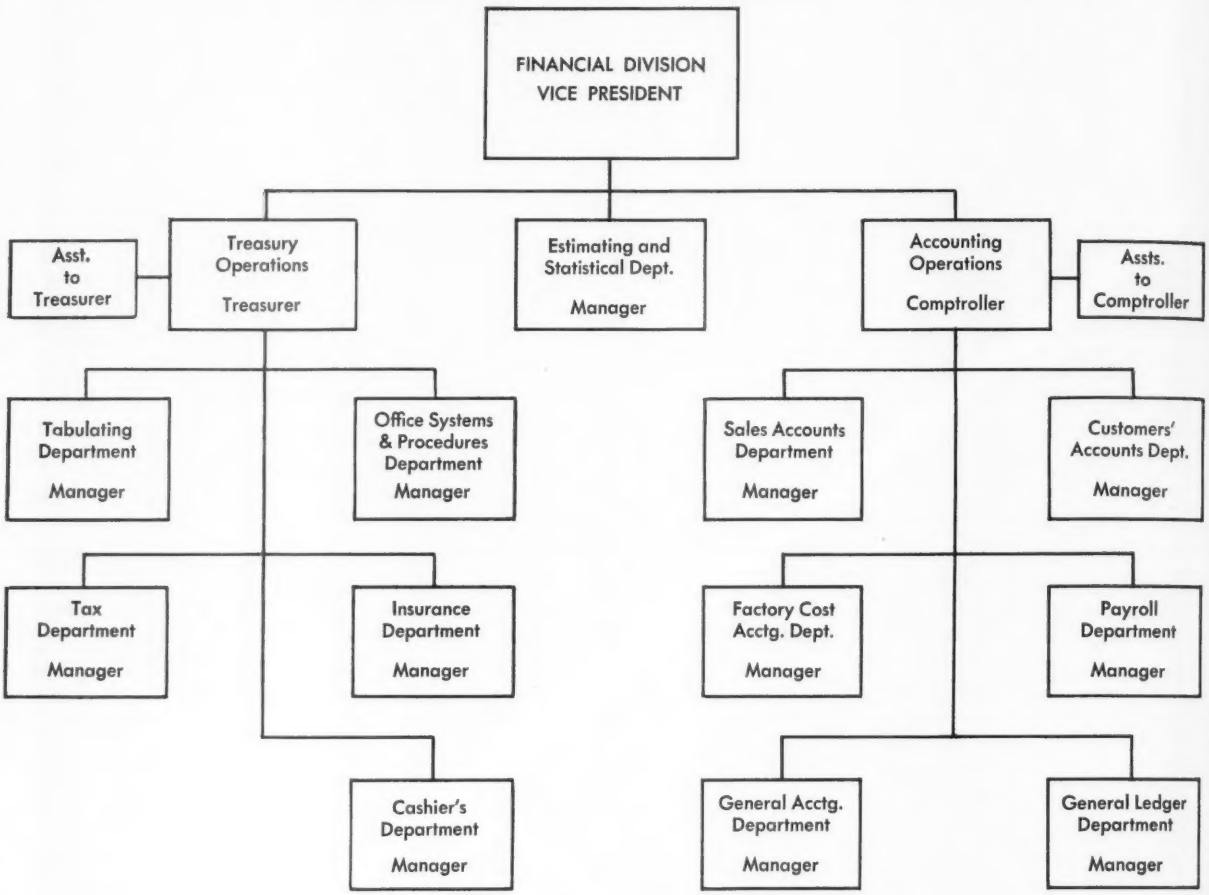
See the MAN from MONROE

for CALCULATING · ADDING · ACCOUNTING · DATA PROCESSING MACHINES

a DIVISION OF LITTON INDUSTRIES

Monroe Calculating Machine Company, Inc. Sales and service in principal cities everywhere. General offices, Orange, N. J.

PITNEY-BOWES, INC.—FINANCIAL DIVISION



long-range planning is limited. Despite this, they generally do considerable work in this area. However, we should be almost as far out in the wild blue as the engineers. If you want to pin me down as to how far ahead we should be, I would say about five years at all times, and perhaps as much as ten in some areas.

It is somewhat difficult to convince people that a five-year forecast should include much detail, because certainly in this day of accelerated growth through diversification or merger, and of very rapid technological progress, nothing estimated five years ahead will turn out exactly as forecast, so why bother with much detail. It has been my experience that the more detail that is put into a long-range forecast, the more likely the forecast is to be accurate in the over all, even though *none* of the details works out exactly as planned. The thought alone that is required to prepare a detailed blueprint for the future tends to produce greater accuracy in the projections than one done on a broad-brush basis.

The five-year forecast, which should be revised at least once a year at the time the additional year is added, with interim revisions when developments indicate a major change in the outlook, should include not only sales by major product classifications, but also by models and units. It should also include cost, expense and profit estimates, cash and capital requirements, and, to the degree possible, estimated future plant and equipment needs and research and development expenditures.

In terms of the more immediate future, I think that planning the budget is the means by which controllership can make its most significant contribution. This is a difficult assignment, as our regular accountants are almost completely occupied with the day-to-day operations of the business and the preparation of the past and current figures. We have found that the only practical way to work up the budget is through a staff department called Estimating and Statistical. This department of five men and a secretary spends most of its time during the last three months of each year in the preparation of the next year's budget, and throughout the year spends about ten to fifteen per cent of its time in making budget comparisons and following up on variances. The remainder of its time is spent on special reports and analyses, and it keeps very busy at all times. This group is also one of the primary means by which we carry out the other functions of reporting to management, although, of course, the regular monthly statements and comparisons are prepared by our operating accountants.

THE ORGANIZATION CHART

You may be interested in the organization of our Financial Division at Pitney Bowes and the means whereby we try to fulfill our primary function of providing timely and pertinent reports on past, present and future operations.

The Financial Division breaks into two principal categories—one, known as Accounting Operations, under the direction of our comptroller, and the other, Treasury Operations, under our treasurer.

Accounting Operations are what I consider our "accounting factory." The departments in this operation carry out the usual functions associated with regular accounting procedures. These departments include: Sales Accounts, which makes our billings and handles our adjustments; Customers Accounts, which handles credit, collection, accounts receivable and our contract and customer files; the Payroll Department; the Factory Cost Accounting Department; the General Accounting Department, which handles our field inventory records and our accounts payable; and finally our General Ledger Department.

Although primarily concerned with regular operations, the General Ledger Department does carry a prime responsibility for prompt preparation of comprehensive and meaningful monthly, quarterly and annual figures. Also, much of the analysis needed for other management reports is done by the members of this department, who, of course, are most familiar with the content of our accounts. Similarly, the Factory Cost Accounting Department has a very great responsibility for keeping our manufacturing management currently and fully informed on cost variances and the status of our overhead accounts. While we have made many improvements in our cost accounting over the past four or five years, it still does not give us, or our manufacturing executives, all we or they believe is needed, so we are in the process of a complete restudy of our system with the primary view to improving its management reporting function.

The other principal category of the Financial Division is Treasury Operations —the name is somewhat of a misnomer as its responsibility goes far beyond the usual treasury functions of cash control and finance. It includes the following departments: Office Systems and Procedures, Tabulating, Tax, Insurance, and Cashier's. Just as we consider Accounting Operations our factory, we similarly think of Treasury Operations as our staff and research organization. It includes two departments on which we are going to be very greatly dependent for the improvement of our accounting and management reporting in the years ahead. These are the Systems and Procedures Department and the Tabulating Department. To me, Systems and Procedures is perhaps the most important single department in the Financial Division, and every day it is assuming greater stature as the complexities of our business continue to multiply. The Tabulating Department—with guidance from the data-processing assistant to the treasurer—is also most important to our future plans, as it is now quite obvious that data processing, either with cards or some of the newer developments, is the way that our systems work is going to be accomplished in the years ahead.

While our Tax Department is naturally greatly occupied with the preparation of the many local, state, and federal returns, nevertheless, our tax manager is very much concerned with the vital area of tax planning in relation to future operations. The Insurance and Cashier's Departments, although vital, are not too directly connected with that function of accounting which we are now considering.

Finally, there is the Estimating and Statistical Department to which I referred earlier, and which reports directly to the head of the Financial Division. This department operates largely in the area of budget preparation, reporting and following-up, long-range forecasting, and special assignments and reports for all divisions of the company.

The organization outlined here is by no means the ideal one—we are aware of a number of defects in it—but we believe that the close liaison between the vice president for finance, and the treasurer and the controller renders it a reasonable suitable vehicle for attaining the goal of rendering to the company's executives the financial information and reports that will be of maximum value to them in making the decisions necessary to properly conduct the affairs of the business.

THE CHALLENGE TO ACCOUNTANTS

I have left until last consideration of what I believe to be the thing general management needs most, and it touches on all that I have said up to now. The best way I can lead into it is to paraphrase a statement, made by our vice president for manufacturing to a group of accountants along these lines:

"I am impressed that so many of you people are searching for better methods by which to account for the costs of today's manufacturing processes. However, I get the further impression that you are only now putting into effect accounting methods which should have been adopted years ago, and that some of you are still trying to push new manufacturing techniques into an old mold to conform with your present accounting practices.

"Engineering and manufacturing processes have been going through a revolution during the past ten years, with even more rapid changes expected in the next decade. New materials; electronics replacing machines; numerically controlled equipment; complete mechanization being pushed by higher labor costs; entirely new methods of making components, to mention only a few, will make manufacturing processes in current use obsolete within the next five to ten years. Many years of research, development and experimentation have finally resulted in the very rapid progress we are seeing today.

"I do, however, submit to you that *no such new developments have evolved in the accounting field;* that traditionally accounting is always looking for new methods merely to catch up with progress made in the technological fields, which forces many new methods for costing, pricing and controls. Therefore, I make this challenge—that members of the accounting fraternity get the 'forward look' and start a program of experimentation and research to enable them to bring to manufacturing executives new, simple, more flexible and accurate procedures, to help them do their jobs in advance of their needs for them, not after. We want this help from you; we need it very badly now and will need it more in the future. You can change this potentially tremendously useful tool of cost accounting from one which is holding up progress to one which will become as much an aid as research and development."

Staying for the moment with the manufacturing-accounting problem, I believe that a classic example is the argument which has raged for years on the relative merits of direct costing versus standard

(Continued on page 507)

THE COST OF WASTED TIME

To the Cincinnati Time Recorder Company, we are indebted for the following chart. It dramatizes the cost of wasted time, showing how much ten minutes per day of wasted time amounts to in dollars, in a year. It is reproduced here with the thought that readers may think it worthy of space in an employe publication.

Hourly Rate	*Five Workers*	*25 Workers*	*100 Workers*
$1.25	$265.60	$1,328.00	$ 5,312.00
1.50	318.80	1,594.00	6,376.00
1.75	371.90	1,859.50	7,438.00
2.00	425.00	2,125.00	8,500.00
2.25	478.10	2,390.50	9,562.00
2.50	531.30	2,656.50	10,626.00

Cash Forecasting With Coverage of All Factors

S. J. Dziuban

A self-proving technique for the forecasting of cash and projection of working capital, which takes account of all items affecting cash

THE INCREASED TEMPO of business places great demands on the cash and working capital of corporations. The maintenance of a sound cash position is becoming a pressing responsibility. Cash must be available for the payment of taxes and dividends. If major plant expenditures are contemplated, it should be determined whether the required cash will be provided from cash flow, borrowings, or added capitalization. In most instances the cash will come from a combination of the first two sources. Any borrowings will call for a scheduling of repayments. To deal effectively with these matters, a forecast of the cash position, extended over a period of time, is a prerequisite and an indispensable tool.

A projection of working capital is as significant as a cash forecast, since working capital represents the cash potential, as the cash investment in receivables and inventories, and the cash required for notes, accounts and taxes payable.

Bookkeeping procedures are well established for recording the business transactions and results for the past periods, but this is not the case with cash forecasting and the projecting of working capital. These mean going a step beyond recording, in that they call for a forecasting of the transactions and results of future periods.

Therefore, a simple, speedy and self-proving technique of cash forecasting and working capital projecting is required.

OUTLINE OF TECHNIQUE

The following method, as set up in *Exhibit II* (facing page), fills this requirement. After certain basic assumptions are made (*Exhibit I*—references to items on *Exhibit II*), it insures recognition of the items affecting cash. With this technique, it is not necessary to establish collections as cash income, and cash disbursements offsetting these as cash out-go. Instead, projections are developed through use of a broad income-equity forecast. By obtaining from income the equity projection, and then establishing the long-term capital projection, this technique develops the working capital projection, the items of which are analyzed to determine the cash projection. The projections may be by months, quarters or years, or any combination.

A preliminary step is to establish or forecast the income before and after taxes, using a company budget if available, and if not, an estimate simply in terms of earnings per share.

The following definitions and concepts apply in this discussion:

Equity capital—represents capital stock and surplus, or total assets less total liabilities;

Long-term capital (net)—represents fixed assets less long-term liabilities;

Working capital—represents current assets less current liabilities.

A KEY CONCEPT

In this cash projection technique we use the concept that equity capital less long-term capital gives working capital. Or restated, working capital plus long-term capital equals equity capital. Therefore

—A normal change in equity capital or capital stock and surplus (income-dividends), with no change in long-term capital, gives an equal change in working capital.

—When equity or capital stock and surplus is not changed, any change in long-term capital (construction, depreciation, financing) gives an inverse change in working capital.

—Most of the other general day-to-day business transactions use and affect working capital alone, and changes or conversions within working capital offset each other. (Cash obtains inventories, or finished goods become receivables, and then cash.)

In this technique the *first* step is to record in the upper portion of the statement the changes in equity capital and long-term capital. Then the equity capital change, less the long-term capital changes, gives the total change in working capital.

As a *second* step these changes in equity capital, long-term capital and working capital are applied to their capital items in the lower-center section of the statement. In this way, they develop from the previous period the new period balances

S. J. DZIUBAN, CPA, with the Treasury Department of the Anaconda Wire and Cable Company, New York, graduated from Manhattan College with a B.S. in Business and then majored in postgraduate accounting work at Columbia University. During 1952, he spent six months in the Office of Price Stabilization, Washington, D. C., as a business analyst (WOC) in the Industrial Materials and Manufactured Goods Division. He is a member of the New York State Society of CPAs, Catholic Accountants Guild, Communication Managers Association and the Industrial Communications Association.

EXHIBIT I

STATEMENT OF BASIC ASSUMPTIONS

Following are the basic assumptions made in the single self-proving statement format used to control the cash projection. Subsidiary statements may be set up to develop and support the progression of current to projected fixed assets, long-term liabilities, and current assets and liabilities, each individually.

a—Based on a sales budget or earnings per share estimate (1,000,000 shares) Net income before taxes at —1960—$10/Sh; 1961—$12/Sh; 1962—$14/Sh.

1—Income after taxes (50%) —1960—$ 5/Sh; 1961—$ 6/Sh; 1962—$ 7/Sh.

2—Dividends declared and paid at 50% of earnings.

6—Property conversions (dismantlements)—at net book capital value; any gain or loss is in income.

8—Financing of 1960 to be repaid in 1962.

9—Long-term liability (8) converted to current liability. (See 13, 21 & 27.)

12—Receivable and inventory increases are working capital other-than-cash increase, and cash decrease.

13—Note of 1960 set-up as current at end of 1961, repaid in 1962. Current designation in 1961 or working capital other-than-cash decrease is not cash-in but is offset by item 9, long-term liability reduction or conversion to current.

14—Federal income taxes at 50% of income. Taxes are set off as separate items because of their scheduled payments.

15—Tax liability payments of 50% in second half of current year and balance of 50% in first half of following year.

16—Current liability (other than financing and taxes) increase, or decrease in working capital other-than-cash, is a cash increase.

18—Cash change is total working capital change (10) less other-than-cash working capital change (17).

30—Payment into fund for previous year offsets equal charge for pensions and retirements in current year costs. (If not, could follow income tax procedure).

of (equity) capital stock and surplus, long-term capital and working capital. The equity capital less long-term capital equals working capital, which becomes the working capital *control* figure and is supported by a working capital-balance sheet of current assets and current liabilities in the bottom area of the statement.

PROJECTION TO END OF PERIOD

As a result of the first and second steps, the total working capital control figure is projected to the end of the desired period(s). Referring to the accompanying statement *(Exhibit II)*, current balances are projected by using forecasted items as follows:

—Forecasted net income (1), less dividends (2), gives the equity increase (3), which added to prior period capital stock and surplus gives the new period CS&S (19).

—Construction (4), increases fixed assets which are reduced by depreciation (5), and property conversions or sales (6), giving net fixed asset change (7), which is added to prior period capital assets to give new capital assets (20).

—Financing (8), increases long-term liabilities (21)—which are reduced by any conversion from long-term to current liabilities (9).

—CS&S increase or equity increase (3), less net long-term capital increase (7, 8 and 9), gives working capital increase (10), which when added to the previous working capital gives new working capital (22).

—The new CS&S (19) less net long-term capital (20 & 21) also gives the new working capital (22).

(Continued on page 476)

EXHIBIT II

CASH FORECASTING

		Year		
		1960	*1961*	*1962*
1	Net income after taxes	$ 5,000,000	$ 6,000,000	$ 7,000,000
2	Less: Dividends	2,500,000	3,000,000	3,500 000
3	Capital stock & surplus—equity increase	2,500,000	3,000,000	3,500,000
4	Construction	6,000,000	5,000,000	4 000,000
5	Less: Depreciation	3,000,000	3,500,000	4,000,000
6	Property conversions	100,000	100,000	100,000
7	Less fixed assets increase plus (decrease)	2,900,000	1,400,000	(100,000)
8	Plus financing long-term liabilities increase	2,000,000	—	—
9	Less long-term liabilities conversion to current*		2,000,000*	—
10	Equals total change in working capital increase or (decrease)	$ 1,600,000	$ (400,000)	$ 3,600,000
11	Working capital other-than-cash increase or (dec)			
12	Current assets inc or (dec) (excluding cash)	500,000	2,700,000	1,000,000
13	Financing (conversion to current) & repayment	—	(2,000,000)*	2,000,000
14	Tax accruals	(5,000,000)	(6,000,000)	(7,000,000)
15	Tax payments	5,000,000	5,500,000	6,500,000
16	Current liabilities—other (inc)	—	(500,000)	(500,000)
17	Less working capital other-than-cash increase	500,000	(300,000)	2,000,000
18	Equals cash increase or (dec)	$ 1,100,000	$ (100,000)	$ 1,600,000

		Dec. 31, 1959	*Dec. 31, 1960*	*Dec. 31, 1961*	*Dec. 31, 1962*
19	Capital stock & surplus	$47,500,000	$50,000,000	$53,000,000	$56,500,000
20	Less: Fixed capital assets	34,100,000	37,000,000	38,400,000	38,300,000
21	Plus: Long-term liabilities	—	2,000,000	—	—
22	Equals WORKING CAPITAL Control	$13,400,000	$15,000,000	$14,600,000	$18,200,000
23	CASH	$ 1,400,000	$ 2,500,000	$ 2,400,000	$ 4,000,000
24	Accounts receivable	7,500,000	8,000,000	8,500,000	9,000,000
25	Inventories	12,000,000	12,000,000	14,200,000	14,700,000
26	Current Assets	20,900,000	22,500,000	25,100,000	27,700,000
27	Notes payable	—	—	2,000,000	—
28	Accounts payable	4,000,000	4,000,000	4,500,000	5,000,000
29	Accrued taxes	3,000,000	3,000,000	3,500,000	4,000,000
30	Reserve for pensions-retirements	500,000	500,000	500,000	500,000
31	Current Liabilities	7,500,000	7,500,000	10,500,000	9,500,000
32	WORKING CAPITAL	$13,400,000	$15,000,000	$14,600,000	$18,200,000

* Items 9 and 13—1961 conversion offset. Long-term liability reduction is working capital other-than-cash decrease.

REACHING THE CASH FIGURE

As the *third* step, the working capital total, as the control figure, is also posted in the lower working capital-balance sheet portion of the statement as item 32, the difference between current assets (26) and current liabilities (31) and is used to work up to the item of cash.

The current liability items (27 through 30) are analyzed and projected and their sum (31) is added to the total working capital (32) to give projected total current assets (26).

The current asset items other-than-cash such as receivables (24) and inventories (25) are also analyzed and projected, and deducting them from the total current assets (26) gives the difference as cash (23).

In step 1 the equity change less the long-term capital change gave the total change in working capital; step 2 developed the new balances of equity capital, long-term capital and working capital; and step 3 developed the individual items of working capital other-than-cash and then cash.

As a *fourth* step, the changes in the items of working capital other-than-cash are developed as items 12 through 16, by comparing projected balances to prior balances of working capital-balance sheet items 24 through 30. The crux of this fourth step, once the total change in working capital (10) is known, is to develop the change in the working capital other-than-cash items as item (17) and by deducting the working capital other-than-cash change from the total change in working capital, thus arrive at the cash change (18). This cash change added to previous cash balance gives the projected cash (23). In addition to proving the cash as obtained in step three, this fourth step completes a listing of the items changing cash, providing an analysis or explanation of the change in the cash position.

Stating this technique in simplest terms, income increases and dividends decrease capital stock and surplus. Determining and deducting net long-term capital gives working capital. Establishing the components of working capital develops the cash position.

ALTERNATE PROCEDURE

An alternate arrangement of the upper half of the statement may be presented using working capital income-outgo to develop a net cash-in, -out statement.

Working capital income or cash-in is comprised of income after taxes, depreciation, property conversions and financing.

Working capital outgo or cash-out is comprised of losses if any, dividends, construction expenditures or capital investment and conversions of long-term liabilities to current.

Federal income tax accrual can be handled as a cash-in item, reporting income after taxes, adding taxes and arriving at income before taxes. Federal tax payment would then be included as a cash-out item listed before dividends. With this treatment, the federal tax items would be excluded from the working capital other-than-cash items grouping.

Treatment similar to taxes would be given any other items, such as interest or pension costs, which are charged to expense and credited to an accrued liability account monthly, but are paid in different periods. This is particularly important with monthly or quarterly forecasts when the payments do not offset the monthly charges and where the nature of such payments warrants setting them off separately, "flagging" them as an early cash requirement. The expense, since it is a noncash cost, is added as a cash-in item each month; the payment charged to or reducing the liability is listed as a cash-out item in the particular month paid. To the extent these items are accounted for separately as cash-in and cash-out, they would be excluded from the working capital other-than-cash grouping.

In annual forecasts, although payments may generally offset charges to expense, if it is desirable to recognize and list any payments as cash-out, the charges would have to be included as cash-in.

Any other changes or conversions within working capital (working capital other-than-cash) such as build-up or liquidation of current assets, and payment or deferment of current liabilities, are listed, as they affect cash.

A specimen cash forecasting—alternate statement *(Exhibit III)* shows how this alternate arrangement may be presented.

EXHIBIT III

CASH FORECASTING—ALTERNATE

	Oct. 1960	*Nov. 1960*	*Dec. 1960*
CASH-IN			
Net income after taxes	$ 350,000	$ 400,000	$ 500,000
Federal income taxes	350,000	400,000	500,000
Net income before taxes	700,000	800,000	1,000,000
Depreciation	250,000	250,000	250,000
Property conversions	10,000	10,000	—
Interest—noncash cost	10,000	10,000	10,000
Pensions—noncash cost	40,000	40,000	40,000
TOTAL	$ 1,010,000	$ 1,110,000	$ 1,300,000
CASH-OUT			
Federal income tax payment	$ —	$ —	$ 750,000
Dividends	—	—	625,000
Construction	600,000	500,000	400,000
Interest payment	—	—	60,000
Pension payment	—	120,000	—
TOTAL	$ 600,000	$ 620,000	$ 1,835,000
Net cash in or (out)	$ 410,000	$ 490,000	$ (535,000)
Inventory (inc) cash (dec)	—	(50,000)	(50,000)
A/C pay inc (dec)-cash inc (dec)	10,000	—	(100,000)
NET CASH INC or (DEC)	$ 420,000	$ 440,000	$ (685,000)

	Sept. 30, 1960	*Oct. 31, 1960*	*Nov. 30, 1960*	*Dec. 31, 1960*
Capital stock & surplus	$49,375,000	$49,725,000	$50,125,000	$50,000,000
Less: Fixed capital	36,270,000	36,610,000	36,850,000	37,000,000
Plus: Long-term liabilities	2,000,000	2,000,000	2,000,000	2,000,000
Working capital control	$15,105,000	$15,115,000	$15,275,000	$15,000,000
CASH	$ 2,325,000	$ 2,745,000	$ 3,185,000	$ 2,500,000
Accounts receivable	8,000,000	8,000,000	$ 8,000,000	$ 8,000,000
Inventory	11,900,000	11,900,000	11,950,000	12,000,000
Current assets	$22,225,000	$22,645,000	$23,135,000	$22,500,000
Notes payable	—	—	—	—
Accounts payable (Excldng interest)	$ 4,090,000	$ 4,100,000	$ 4,100,000	$ 4,000,000
Interest payable	30,000	40,000	50,000	—
Accrued taxes	2,500,000	2,850,000	3,250,000	3,000,000
Reserve for pensions—retirements	500,000	540,000	460,000	500,000
Current liabilities	$ 7,120,000	$ 7,530,000	$ 7,860,000	$ 7,500,000
WORKING CAPITAL	$15,105,000	$15,115,000	$15,275,000	$15,000,000

Today's low-cost way to automate your job costing is with Keysort Data Processing

For strict job costing controls at every stage of operation—for any number of up-to-the-minute management reports in such areas as inventory, order and sales analysis, labor costing—Keysort is the data processing system to use.

The reasons are many. No restrictive procedures; minimum training; remarkable economy; simplicity of installation and operation.

Keysort, in fact, is the only automated data processing system flexible enough to fit your business as it stands *and* as it grows. It is the one system adaptable and affordable to companies of every size.

With Keysort you use punched cards—mechanically created for fast, easy sorting. Figures are automatically tabulated and results summarized direct to reports without transcribing.

Result: Keysort automates your data processing to give you the meaningful on-time information you need for complete control of your business and profits. Monthly, weekly, daily. And at truly low cost.

Your nearby Royal McBee Data Processing Systems Representative has had a wealth of experience in solving management control problems. Working with you, with your systems and procedures experts, he can offer helpful advice about a low-cost Keysort system tailored to your individual requirements. Call him, or write us at Port Chester, N. Y. – indicating the applications in which you are interested—and we will be happy to send you actual case histories from our files.

ROYAL McBEE . *data processing division*

NEW CONCEPTS IN PRACTICAL OFFICE AUTOMATION

Price Depreciation and Paper Profits

S. A. Tesoriere

How failure to incorporate the factor of "subliminal depreciation" has lent unreality to the profit statement

WHEREVER we choose to look today, especially in the arts and in the sciences, we find that the traditional has degenerated into the outmoded having only nostalgic value. A quick review in one's mind of the recent artistic and scientific changes will immediately dispel any doubts on this score with limited exceptions in the area of women's styles, the Westerns and accounting. The first two conjure pleasant nostalgic reminiscences, the third tends to create dissension and confusion.

Accounting has hardly changed in the past few centuries. Having once developed a set of definitions, principles and bases of measurement under less virile economic conditions, it has been reluctant to modify them primarily for a lack of professional agreement and leadership. In the light of economic conditions, accounting has failed to communicate financial data effectively to all interested parties.

In the area of depreciation this is especially noticeable. We find an insistence on cost values instead of dollar values, resulting from a creeping inflation, swells profits unrealistically. In turn this accelerates the inflationary trend. Countries in other continents, often thought less advanced, have come to grips with this same subliminal depreciation problem, referred to more commonly here as price-level depreciation, and have taken steps to measure and eliminate it from profits.

A FAIRER REPRESENTATION

The accountants' certificate which reports in its closing remarks, "In our opinion the financial statements present fairly the financial position and the results of operations for the year———in conformity with generally accepted accounting principles———" is still predicated on certain outmoded thinking. There is a serious need for more modern-thinking accountants who will frankly admit the use of sounder principles. These principles would permit them to state that, in their opinion, the financial statements *more* fairly present the financial data than would those resulting from the application of generally accepted outmoded principles, basically several centuries old.

While it is unqualifiedly certain that this small group of realistic accountants is growing in numbers, it is equally true that they still have to apologize for their position if they deviate from general archaic practice. This is an intolerable position, much like asking our space scientists to repudiate their efforts, and a Picasso or Faulkner to utter excuses for their deviation from the traditional. In the immediate area of business, it is like asking the developers of electronic data-processing equipment to apologize for their achievements. This is exactly what forward-thinking accountants are asked to do when they depart from generally accepted principles which fail to measure the extent of subliminal depreciation produced by inflation.

DELUSIVE INCOME

It is certainly no revelation that throughout the last score of years the dollar has shrunk in value while business profits as currently reported have swelled —as have the taxes paid thereon. But profits in many instances are not what they appear to be. They are problematical profits. They require re-appraisal in order that the unexpendable portion created by dollar erosion be eliminated.

The rules leading to the determination of income do not fully consider that, in an era of rising costs, there creeps into the term "profit" a substantial amount of purely market or paper gains. This market element in business profits, as currently computed, is both illusory and unexpendable, and to that extent creates operating results divorced from reality. The profit figure so computed sets the tax liability and determines the desirability of paying dividends, approving bonuses and embarking on elaborate expansion programs or other ambitious plans.

Little practical progress has been achieved in accounting for inflation and none at all in the area of depreciation predicated on the declining purchasing power of our money. Accelerated depreciation methods are not to be confused as accomplishing this end, for however liberal they may be they are still predicated on original cost.

Based on the published Consumers Price Index, the value of the dollar since 1950 has dropped about 25 per cent. A similar percentage decline took place in the five years immediately preceding

(Continued on page 482)

S. A. TESORIERE has been chairman of the department of Accounting at the School of Business, Fordham University, New York, since 1955 with the rank of associate professor. He joined the Fordham faculty in 1950. From 1948 to date he has conducted his own CPA practice including consulting work especially in the area of management training programs. He holds a B.B.A. from St. John's University and an M.B.A. from New York University. He has contributed articles to books and magazines covering the accounting field. A CPA (State of N. Y.), he is a member of AICPA.

The new XeroX 914 Office Copier does not require expensive sensitized paper, or intermediate film negative, or liquid chemicals. It copies directly onto standard office paper (plain or colored), your own letterhead, or card stock. Up to six copies per minute!

There are no exposure adjustments to make with the XeroX 914 Office Copier and, therefore, no waste of materials (the biggest cost item in conventional office copying). Each copy, *every* copy of the original is a *perfect* copy. The last copy is as good as the first.

Copies everything—never misses a color! A letter, invoice, statement, contract—anything written, typed, printed, stamped or drawn can be copied on the new XeroX 914 . . . even pages in a thick bound book. Copies all colors, even reds and blues, with sharp black-on-white fidelity.

Easiest of all office copiers to operate for multiple copies or just one. Simply place original document face down on the scanning glass, select the number of copies you want, and push "Print" button. Anyone can make perfect copies every time on the XeroX 914 Copier.

About 1¢ per copy for supplies. If you now spend $50 to $100 per month for copying supplies, you can't afford to be without the new XeroX 914 Copier. Supplies cost about 1¢ per copy, the machine is available without capital investment on a unique pay-as-you-use plan starting at $95 a month.

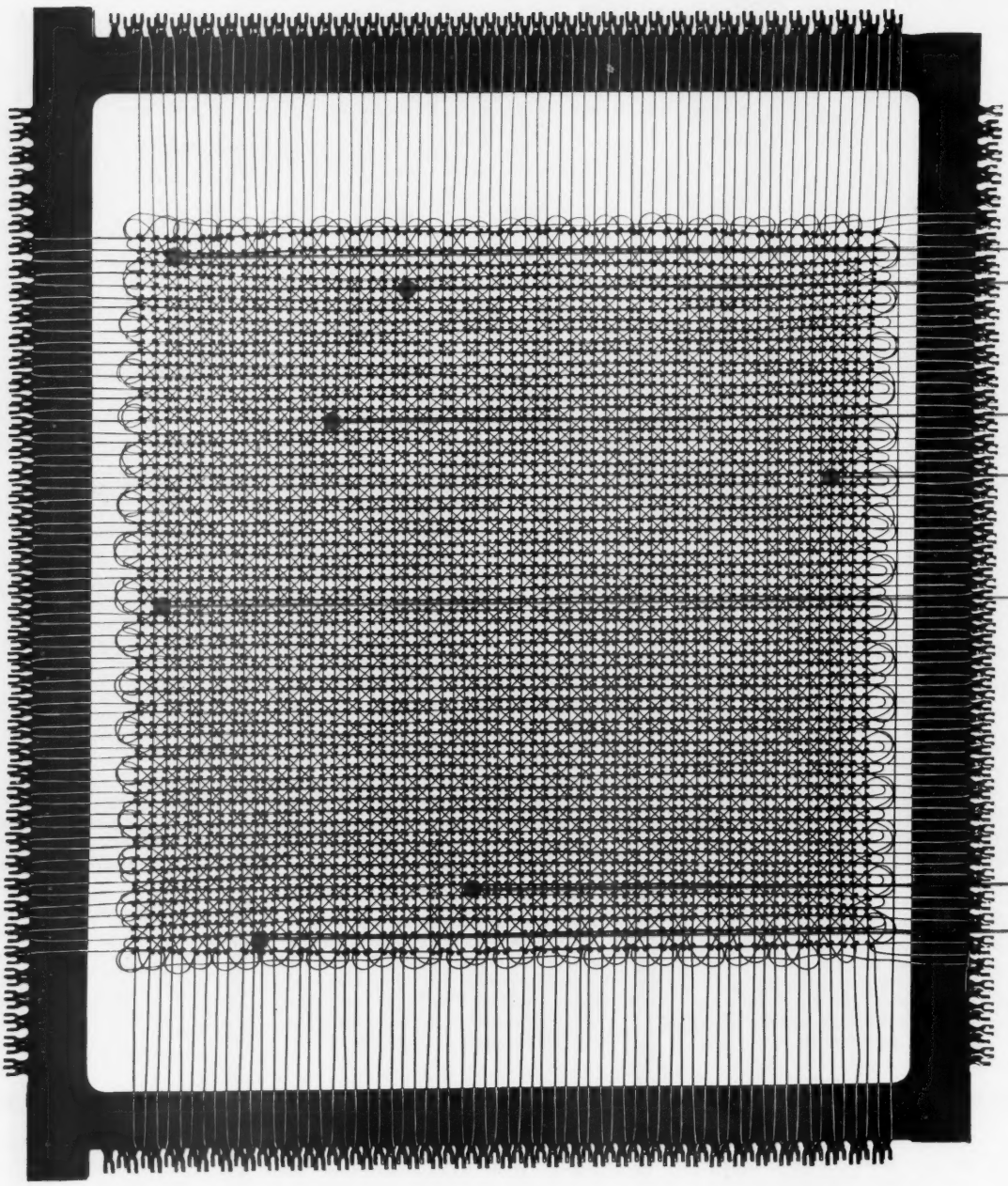
For complete information about this remarkably fast, inexpensive method of copying, write HALOID XEROX INC., 9X-130 Haloid St., Rochester 3, New York. Offices in principal U.S. and Canadian cities.

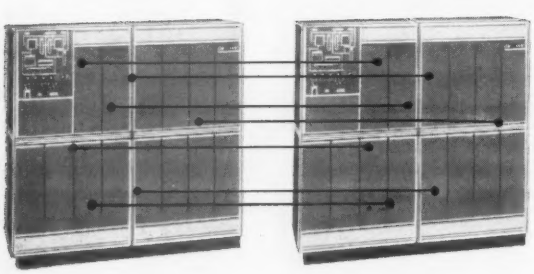
Overseas: Rank-Xerox Ltd., London.

HALOID XEROX®

NEW XEROX® 914
OFFICE COPIER

SEE THE XEROX 914 OFFICE COPIER AT THE BUSINESS EQUIPMENT EXPOSITION, LOS ANGELES MEMORIAL SPORTS ARENA, NOVEMBER 1-4, 1960

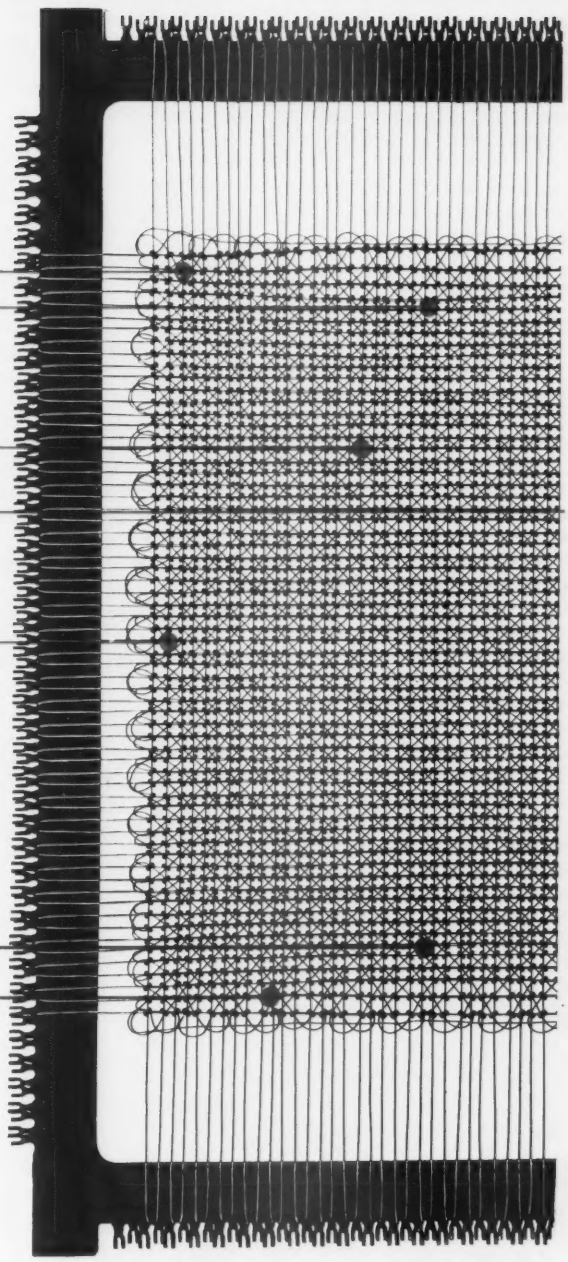




New kind of TELE-PROCESSING system: IBM 1401 systems send and receive information directly, with no intermediate handling of the message.

A new device enables the IBM 1401 data processing system to serve as a low-cost, two-way communications system in addition to its regular processing functions. With the new IBM 1009 data transmission unit, plus related dialing equipment, a 1401 can send data over long-distance or leased communication lines directly from its electronic memory to the memory of another 1401. There's no detour for transferring the data to cards or tape.

NOW IBM 1401 DATA PROCESSING SYSTEMS "TALK" TO EACH OTHER LONG DISTANCE— MEMORY TO MEMORY



This machine-to-machine transmission saves time and effort, improves accuracy. The versatile 1401's card and tape facilities can be used for input and output. The 1401's high-speed printer also may serve as output. The transmission unit can also team up with other sending and receiving equipment developed for IBM TELE-PROCESSING systems.

This expansion of the 1401's capabilities makes possible a fast flow of information into the home office from a wide network of field installations. Business and scientific organizations can make profitable use of this new advance for such applications as accounting, inventory control, engineering, production scheduling and sales communications.

Can an IBM TELE-PROCESSING system help you?

Business information is useful only if it can be acted upon. TELE-PROCESSING systems make data available where and when it's needed. With years of data transmission experience, IBM can make your business data more useful. Ask your IBM representative about the advances in TELE-PROCESSING systems and what they can do for you. Data Processing Division, International Business Machines Corporation.

IBM® TELE-PROCESSING
Trademark

1950. No formal recognition of this dollar deterioration has been afforded to asset replacement primarily because inflation has occurred in small doses. Yet the 50 per cent dollar devaluation in 15 years is hardly immaterial. Had this developed over a few years as it has in some other countries, we, too, would have provided proper recognition; but over the years the aggregate drainage of corporate capital is nevertheless important.

VANISHING PROFITS

Isolating a set of transactions for closer scrutiny, we can better appreciate the term "problematical profits" as it applies to the area of subliminal depreciation.

Assume a situation wherein a parent, desiring to test his son's business ability, donates a well-equipped machine shop to his son—no other assets, no creditors or debts. The son is instructed to operate the shop for a trial period of five years, at the end of which time he is to keep all profits after returning the shop in exactly the same status as when he originally acquired it. The equipment to run the plant is new and cost $100,000. Since the equipment has an estimated life of five years, it is intended that, before the shop be returned to his parent, it is to be refurnished with similar new equipment in order that it remain in identical working condition.

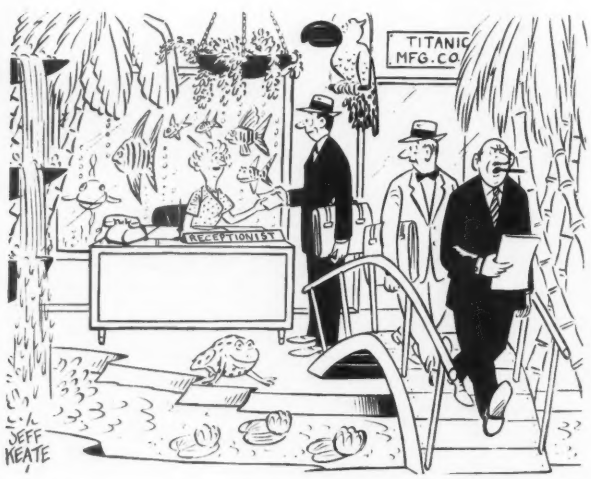
The market for machined products is good, and the profits over the allotted period amount to $55,000. Highly satisfied with the "profit" the son begins to replace the now-worn equipment that he might fulfill the terms of the agreement. The prevailing rising price level, which helped him earn his profit, brings the cost of replacing the shop's equipment to $150,000. He has kept his part of the agreement and requests of his father $55,000, arrived at by conventionally applying the original cost of the equipment (cost depreciation), together with the other operating costs, against sales.

The father, examining the figures a moment, compliments him on his achievement and asks the son to draw himself a check from the business for the balance. The son, occupied with the technical operating end of the business, concerned himself little with the office and the accounts. Relying on the profit figures reported to him, he was considerably embarrassed when he found that the firm's cash balance showed only $5,000, the true extent of his profits for the five-year period. This amount represented the difference between the profit of $55,000 reported and the $50,000 increased cost arising from subliminal depreciation.

We can well imagine the son's disappointment, but we must appreciate that, in this case, the net accretion to the business was just the balance in the checking account. Only to the extent that proceeds from sales were not absorbed in replacement costs has there resulted expendable income.

How much sadder it would have been had the son spent his apparent profit as he was so often tempted to do. He then would have come to the rude awakening that money would have to be borrowed from other sources in order to fulfill his bargain.

Yet this same son might well insure his three-year-old cruiser at a figure greater than its cost because he recognizes that the recovery from the insurance company of original cost would be inadequate in terms of current replacement. Our insurance companies accept and encourage this thinking. Our taxing authorities also can see the logic in this case and permit the excess recovery over cost to go tax-free if such "profit" is absorbed in the process of replacing the asset. But it will not apply the same basic thinking in the machine-shop case.



"It all started with a lousy fifty-cent potted plant!"

CURRENT INCONSISTENCIES

We can readily see the effect of inflated costs in the instances cited. Strangely enough, however, when we toss a multiple of transactions into the complex economic structure of modern business, we lose sight of fundamentals. We arrive at a profit figure that places its emphasis on the term "acceptable" rather than sound.

I choose to call today's reported profit figures "problematical profits." They are problematical to the extent that such figures fail to maintain the same operating efficiency permissible with their present plant facilities, by providing for their proper replacement.

EARNINGS MUST BE ADJUSTED

Earnings that are inflated through an unyielding adherence to historical costs without regard to replacement costs must be adjusted to provide the latter, and all financial decisions should be predicated on such adjusted figures, despite the insistence on the part of the Government and accounting methods to ignore these dollar fluctuations.

For the most part, market profits in inventories have been eliminated by the use of Lifo method, which permits the most recent cost to be applied against sales. We must be sure, however, that Lifo is being used, as there are still some business organizations that have not converted. If not, we must calculate a reasonable deduction to cover replacement costs and adjust reported profits accordingly.

Analogous reasoning can be applied with respect to plant and property. The recovery of depreciation of plant and property out of sales income has the same effect as a piecemeal sale of capital assets. Depreciating machinery, costing $100,000 and having a useful life expectancy of five years, is the equivalent of selling such machinery in five aliquot parts over that period of time. Although the annual effect is restricted to one fifth of the asset, it adds up in five years to the same amount as an outright sale of such asset.

However, corporate financial statements do not make a similar allowance for these replacement costs. Rather do they allow, by means of depreciation, the recovery of original or historical costs, which generally are substantially below current costs. Accordingly, the continuing rise in the price level brings up a serious question: whether corporate working cap-

(Continued on page 504)

FIRST

with the solution

Complete management control demands accurate, instantaneous data collection, transmission and processing.

Until Stromberg developed the TRANSACTER SYSTEM, no accurate, instantaneous method of source data collection existed. Industrial data gathering and transmission was a relatively primitive operation – completely dependent on manual recording and delivery, and subject to human fallibility every step of the way. Such methods were incompatible with the speed, accuracy and efficiency of modern electronic data processing.

The TRANSACTER SYSTEM – entirely compatible with all major electronic data processing methods – is the first successful data collection system designed specifically for use in the factory. It eliminates all intervening paper work and clerical operations between widely scattered data sources and a central processing office.

Compilation of management reports that has heretofore taken days – sometimes weeks – can now be fully accomplished in **minutes!**

Production and inventory control, job costing, receipt and shipment, on-line communication, job order recording – these are just a representative few of the scores of potential assignments for the TRANSACTER SYSTEM in modern industry.

With the TRANSACTER SYSTEM dramatic new opportunities for profit improvement become evident.

SEE THE TRANSACTER* SYSTEM IN ACTION–

INTERNATIONAL SYSTEMS MEETING
New York, October 10-12

CONTROLLERS INSTITUTE CONFERENCE
San Francisco, October 22-26

STROMBERG DIVISION

GENERAL TIME CORPORATION
THOMASTON, CONNECTICUT

*TRADE MARK GTC

Measurement—Plus Planning: Remarks on a Control System*

Characteristics of a control system aimed at cutting the complexities of modern financial administration down to size, followed by observations on the controller's role and responsibilities

* Abstracts of remarks at a technical session of the Eastern Area Conference of Controllers Institute of America held at Pocono Manor, Pennsylvania, May 1960, made by RAYMOND VILLERS, JAMES L. PEIRCE and DUDLEY E. BROWNE. Dr. Villers, who was the featured speaker at the session, is a consultant on industrial management with the firm of Rautenstrauch and Villers, New York, and a lecturer on industrial engineering at Columbia University. Panelists Peirce and Browne, both former presidents of the Institute, are respectively vice president-finance, A. B. Dick Company, Chicago, Illinois, and vice president-finance, Lockheed Aircraft Corporation, Burbank, Calif.

PART I . . . . . Raymond Villers

AFTER YEARS of uncertainty with regard to what is meant by control system, a trend is now developing that is characterized by two essential points: (1) The need for diversified standards of measurement and (2) the need for a control function as part of the organization structure.

THE NEED FOR DIVERSIFIED STANDARDS OF MEASUREMENT

Profit-making at a rate that provides an adequate return on investment is the ultimate goal of the business enterprise. It is therefore beyond question that the accounting figures provide the standard of measurement of the performance of the company as a whole. The problem is how to relate profit-making to the performance of each of the executives and supervisors to whom authority and responsibility have been delegated: The vice president-manufacturing, the director of research, the chief accountant, the plant manager and each foreman.

The efforts made to solve this problem can be classified as three major steps taken during the last 60 years:

Step 1 started with Frederick W. Taylor's work—the determination of work-measurement standards. This has proved to be a very useful step that provided the basis for cost accounting. The same approach is now being used in various fields, including office work, applying such statistical concepts as the work-sampling method.

Step 2 has been the use of budgets that makes it possible to control expenses on the basis of foresight rather than on the basis of wisdom of hindsight. In the late 1940's budgeting was still considered a nonpractical approach in most companies. During the last decade, industry has taken this Step 2. Budgeting is now the rule rather than the exception, as indicated by the recent survey conducted under the sponsorship of Controllers Institute Research Foundation.

Step 3 is the recent trend which is essentially the subject of this paper. Work-measurement standards and expense budgets—Steps 1 and 2—tell you whether or not the money spent was the amount that could be reasonably expected for what was accomplished. They provide a useful expense control. But expense control is only one aspect of profit-making. The other aspect involves what has been accomplished and also what should have been done and has not been done. Step 3 is the development of a control system that provides a measurement of this other aspect of profit-making: what has been obtained as a result of the money that was spent.

Considering the organization as a whole, the answer is clear-cut and accounting data provide this answer. The sales income is what has been obtained as a result of the expense. The difference between the two is the profit that measures the performance of the whole organization. But the question is:

How can the head of the organization measure the performance of his subordinates at the various levels of management with regard to what they have accomplished for the money they spent?

A useful approach is divisionalization. The manager of a division has to show a profit for his division. This approach provides such a clear-cut answer that it has been widely practiced. There is room for argument as to how far to go in the direction of divisionalization and this has been widely discussed. But there is no room for argument that, regardless of the size of the division, divisionalization in modern industry will always end with a functional organization because, on its own, the division is a functional organization.

No profit can be made by the organization unless the various functions contribute effectively, but no function makes a profit on its own. Attempts have sometimes been made to create profit centers within the functional organization, which amounts to semidivisionalization, but this procedure is rather exceptional. The question then is:

How to measure the performance of a manager in the functional organization?

For many years the answer has essentially been of a qualitative nature: the opinion of one or several executives. A report by the president to the board of directors could emphasize the "splendid accomplishment" of the marketing people; the plant manager could ask for an increase in salary of this foreman, because of his "excellent job," or could decide to fire that foreman because he is "no good." Obviously this approach leads to abuses, misunderstandings and misjudgments.

With a quantitative measurement of actual performance, these problems can

be solved and the management of the functional organization can become much more efficient, making it possible to operate on the basis of functional decentralization.

In recent years, increasing attention has been given to the need for standards of performance. As stated by W. Benton Harrison, senior vice president-administration of Sylvania Electric Products:

What can be quantified? There is no question that businessmen have learned to measure and apply mathematical techniques to new facets of business activities during the past decades. Relatively little progress however has been made in applying these quantitative methods to management. I can think of nothing needed more than a method for measuring the effectiveness of a manager.

To serve this purpose, the activities of the manager have to be analyzed and his performances related to certain key centers of the business, i.e., the centers of activities that deserve special attention because of the conditions of operation.

To select the key factors, not too many and enough of them; to select an adequate unit of measurement: sales volume, sales mixture, rate of rejects, absenteeism, turnover, among many other units; to prepare reports that do not require too much paperwork and at the same time provide all the information needed by each executive or supervisor who has to know how his subordinates have performed—this is the problem.

THE NEED FOR A CONTROL FUNCTION AS PART OF THE ORGANIZATIONAL STRUCTURE

As is always the case in a new field, there is room for uncertainty and disagreement. This is the case with this new control function, specifically with regard to four fundamental questions:

Question 1. *What will be the field of activities of this function?* I suggest that it will include planning and budgeting as well as control, because in many cases the adopted plan of action provides the standard of measurement of the actual performance.

I also suggest that it should include the responsibility for data processing. Recent and expected new developments in the field, including electronic computers and telecontrol, the new production control equipment, clearly indicate that integrated data processing is part of a well-managed control system.

Question 2. *What are the responsibility and the authority of this function?*

I think that it should be clearly established that this function acts as a service department for the benefit of management, with no authority to give orders but with the responsibility of offering assignments as part of planning, which assignments have to be accepted by the operating people, with no authority to investigate what has already been done, but with the responsibility of providing an adequate control system. This stimulates the effective concept of functional decentralization.

If properly organized, managerial control is an objective method of effective management that is essentially based on (a) the determination of a standard of performance (call it S); (b) the recording of the actual performance (call it A); (c) the computation and eventual analysis of the variance ($V = S - A$); and the proper managerial action.

The decision to act depends upon the information provided. The actual performance A and the predetermined standards may draw attention to significant problems and the need for change in the conditions of operation, or to significant opportunities that should be taken advantage of. The variance $V = S - A$, if adequately measured and analyzed, indicates whether or not the operations are conducted as expected. The action suggested by V may be a reward or a rebuke, a change in procedure or any other action. The decision may even be *not* to act, either because V is a variance that is within expected or acceptable limits, or because it is recognized that for the time being nothing can be done about it.

The problem that has to be solved is to determine what information should reach this or that manager, how standards of measurement can be determined, how the actual data are recorded, how detailed they have to be, how accurate they can be and how the analysis of the variance $V = S - A$ can be made and presented.

This is the responsibility of the control function.

Question 3. *Who will take over this new control function?*

The nature of this problem is best illustrated by the article recently published in the *Journal of Industrial Engineering* by E. B. Cochran, who thinks that this new function will be part of the controller's office. His article is preceded by a note of the editors who indicate their opinion that the industrial engineer should be considered. In a following issue of the *Journal of Industrial Engineering,* the author of the article answered the editors' note. Illustrative of the transition period we are going through is also the fact that exactly a year ago—it was in May 1959—I myself was given the opportunity of addressing the national convention of the American Institute of Industrial Engineers and of presenting a paper also related to the control function.

Question 4. Last but certainly not least—*How to organize the control system?*

What is needed is an *integrated system.* This point has been very clearly indicated in recent years in various studies, including the research work sponsored by Controllers Institute Research Foundation and several papers presented before the American Management Association.

An integrated system is best provided by the operations control book system.

An operations control book is a set of reports made available to each manager or supervisor and intended to give him the information he needs to evaluate his own performance and to know to what extent he can rely upon the subordinates to whom he has delegated some of his responsibilities.

Too much information results in reports too extensive or too intricate which may either remain unread or be misunderstood. Too little information may leave gaps in the texture of managerial controls and defeat their own purpose. A solution to this dilemma is to provide at top-management level a synthesis of information and a very analytic information at the lower levels and to relate them to each other through progressively less synthetic and more analytic but closely interrelated information from top to bottom. This means a complete departure from the frequent practice of issuing one report, copy of which goes to all levels of management, thus saving a great amount of paperwork but wasting a great amount of managerial effort and even taking the risk that the information will be misunderstood or will not receive the attention it deserves. *(Continued on page 486)*

CHANGING YOUR ADDRESS?

Notice of change of address for THE CONTROLLER should be received in the editorial offices of THE CONTROLLER, Two Park Avenue, New York 16, N. Y., before the first of the month to affect the following month's issue. For instance, if you desire the address changed for your December issue, we should be notified of your new address before November 1. *Be sure to include your postal zone as well as your old and new address.*

To illustrate the approach of issuing a synthetic related to analytic reports, let us take a hypothetical case. In a given business, the president receives synthetic reports that summarize the main activities of the business. The vice president-manufacturing, the shop superintendent and the foremen receive reports related to their own problems in an increasingly analytic manner from top to bottom.

During a given period, the scrap of material in one department has reached a very unusual level. The report received by the president reveals that the actual cost of production is far above standard. The report received by the vice president-manufacturing does not give the final answer to the question asked by the president with regard to this variance, but it shows that the variance has occurred in the shop, not in the assembly department. The shop superintendent's report includes the item "scrap" which reveals that this particular element of cost is the one out of line. But it gives only a total value of the scrap expense. A breakdown of this expense by type of material is available in the more detailed reports sent to the foremen. The foreman's report discloses which material is responsible for the unidentified variance shown in the report to the president between actual and standard cost of manufacturing. This provides the information the president needed to take action. He immediately calls the vice president who supervises the purchasing agent and tells him to find out why this material that does not meet the specifications was ever purchased by his subordinate.

The needs and conditions of operations of each organization vary so much that the key centers—that is, for practical purpose, the listing of all subjects to be included in the operations control books—will vary greatly from company to company.

The following five steps have been found useful in introducing and operating the operations control book system:

Step 1. Determine what reports are needed by top management and how often they are needed, so as to serve two essential purposes:

—provide an over-all picture of the company's situation for which top management is responsible;

—throw light on mistakes made or troubles encountered at lower levels of management, to whom responsibility and authority have been delegated. This has to be done early enough so that action can be taken before excessive damage has resulted.

Among the reports that are used in practically every company are the reports on sales, cost and profit, compared to forecasts and budgets; the timing of deliveries to customers compared to promised dates; the complaints from customers; the efficiency of plant operations; and the employes' morale and attitude.

Step 2. Determine the key centers at the next level of management, by analyzing the key centers at top level. For instance, the actual total sales vs. the forecast is the report that reaches the president; the actual sales, district by district vs. the forecast by district, is the report that reaches the director of marketing.

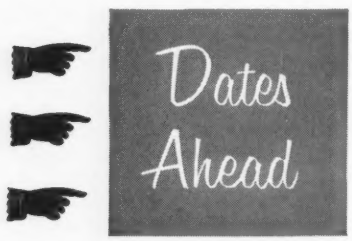
Step 3. Proceed in the same manner, until the lowest level of management is reached: the report of actual sales for each salesman vs. his sales quota is what reaches the district sales manager.

A practical approach when starting at top-management level is to review the reports that are now received. In many cases, it will be found that the number of reports received is beyond reason, that quite a few duplicate each other and that many of them include so much data that the executive involved cannot be expected to read them.

Step 4. Organize the preparation and distribution of operations control books. The data are collected either by the control function (whether it is part of the controller's office or of a planning and control department) or by the function involved: safety, dispatching, scheduling, marketing, etc. In the latter case, however, the reports are sent to the control function and not directly to the executives or supervisors who will ultimately receive them.

The control function studies the reports, eventually summarizes them, or presents them as graphs, or analyzes the variances and makes comments. These reports are then incorporated in the operations control book, a set of reports that is permanently on the desk of each executive or supervisor, and in which all reports are classified according to a permanent arrangement recorded in a table of contents.

The operations control books are kept up to date by periodic replacement of the reports. The issuance of the new reports by the control function may be on a quarterly, monthly, weekly or even daily basis, depending upon the report and the purpose it is intended to serve.



MARK YOUR CALENDAR

CONTROLLERS INSTITUTE OF AMERICA

29th ANNUAL INTERNATIONAL CONFERENCE

OCTOBER 22-26 **FAIRMONT HOTEL** **SAN FRANCISCO**

OTHER ORGANIZATIONS

OCTOBER 10-12	NABAC, The Association for Bank Audit, Control and Operation 36th Annual National Convention	LOS ANGELES
OCTOBER 10-12	SYSTEMS AND PROCEDURES ASSOCIATION International Systems Meeting	NEW YORK
OCTOBER 16-19	INSTITUTE OF NEWSPAPER CONTROLLERS AND FINANCE OFFICERS 13th Annual Meeting	DETROIT
OCTOBER 19-22	AMERICAN RECORDS MANAGEMENT ASSOCIATION Annual Convention and Records Management Workshop	MILWAUKEE
OCTOBER 20-22	INSTITUTE OF MANAGEMENT SCIENCES 7th International Meeting	NEW YORK
OCTOBER 26-28	TULANE UNIVERSITY 10th Annual Tax Institute	NEW ORLEANS
OCT. 30-NOV. 3	TAX EXECUTIVES INSTITUTE	BAL HARBOUR, FLA.
NOVEMBER 9-11	UNIVERSITY OF DENVER 10th Annual Tax Institute	DENVER

The size of each operations control book is kept at a minimum. It should include preferably less than 15 or at most 20 pages. Each page should be a report on its own, using tables, graphs and eventually adding a few comments. What makes it realistic to reduce to such a small quantity the number of reports that reach a manager is the interrelationship between the synthetic presentation at top level and the more and more analytic presentations at each level of management, from top to bottom.

Step 5. Use effectively the operations control books. Essentially the two purposes of the operations control book are to inform the one who receives it and to facilitate communications between him and his subordinates so that effective decisions can be made. These two purposes are best served by organizing methodical periodic reviews of the operations control books. The frequency of such reviews varies not only with the company but with the levels of management and the reports involved. To go to an extreme: the general foreman may meet once a day with his foremen to review the rate of rejects. What is desirable is to establish a pattern that facilitates communications from bottom up. A typical approach is to have a monthly meeting of the president with the three vice presidents in charge of marketing, manufacturing, and administration, at which the president reviews his own operations control book, page by page and asks questions whenever he feels that some variances or some performances require explanations. The procedure should be that each vice president had a similar meeting with his own subordinates a few days before, who, in turn, had previously met with their own subordinates, and so on down the line.

If the president asks a pertinent question related to the data shown on his operations control book, the question should have been anticipated by the vice president because the latter's own operations control book also shows the situation that requires attention and in fact shows even more details. The same is done at all levels of management. This means that although the question is likely to come from the top, the initiative to consider the problem most of the time will have come from the bottom, because each subordinate has anticipated that the question would be asked.

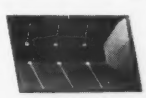
To summarize and analyze the recent trends in the organization of control, the following can be said:

1. From a technical point of view, recent developments in data collecting and data processing have greatly increased the possibility of operating an efficient system of operations control;

2. From the point of view of the enterprise, an adequate system of control makes

(Continued on page 488)

Enter figures, see them here.



If you've erred, you can "clear"

and correct immediately!

Friden's model ACY actually catches errors before they're made. The exclusive Visual Check window shows a full registration of figures entered while they still can be corrected.

Further, the ACY has the exclusive Friden Natural Way keyboard, which is designed to fit the user's hand perfectly. Other features include the extra-wide platen for roll paper and wide forms; automatic red-printing of negative values; all live control keys; plus special features for rapid multiplication.

Try the "next step" in adding machines. Call your Friden Man, or write Friden, Inc., San Leandro, Calif.

THIS IS PRACTIMATION: automation so hand-in-hand with practicality there is no other word for it.

Friden Creates A New World For Business®

Friden

SALES, INSTRUCTION, SERVICE THROUGHOUT THE U.S. AND THE WORLD

BE WELL ORGANIZED

Put Facts At Your Fingertips

WHIRL-O-DEX

the quality line of rotary card indexes

EXECUTIVE SERIES
750 to 3000 card cap.

STANDARD SERIES
750 or 1500 card cap.

"250" SERIES
Supplied with 250 cards

TILT-DEX SERIES
750 or 1500 card cap.

WITH EXCLUSIVE "CARD LOCK" FEATURE

Uniform "Card Lock" deep-cut punching holds all WHIRL-O-DEX file cards firmly on dual tracks, eliminates accidental "drop-out," permits interchange of the same size cards (or smaller) from one WHIRL-O-DEX unit to another. WHIRL-O-DEX units come with a complete set of alphabetical index guides. Three sizes of cards are packaged separately. You buy just the cards you want. Six colors, ruled or plain, for convenient posting and color coding.

CARDWAY CORPORATION Division of
Cushman & Denison Mfg. Co., Inc., Carlstadt, N.J.

Please send me complete catalog of the new WHIRL-O-DEX line of rotary card indexes

Name_____

Company_____

Address_____

City_____ Zone____ State_____

it possible to detect mistakes early enough and select the best opportunity at the time of decision making; and

3. From the point of view of human relations, an effective control system not only does *not* affect the individuals adversely, but it greatly stimulates the revival of the entrepreneur spirit about which we speak so much but which is so difficult to practice in modern industry unless we reconcile the need for coordinated effort with the need for each individual to act freely on his own. The control function can organize the system that provides the framework that supports the coordinated effort needed by the organization and within which the operating people at all levels of management and supervision can act freely on their own initiative.

As stated by Rensis Likert, director of the Institute for Social Research, University of Michigan:

People seem most willing and emotionally able to accept, and to examine in a nondefensive manner, information about themselves and their behavior, including their inadequacies, when it is in the form of *objective* evidence.

4. Last but not least the development of the control function will eliminate the duplication of reports, reduce the paperwork involved and make it possible for the executives and supervisors to manage much more effectively.

The big challenge we now face is to have these facts fully understood and to stimulate our research work in the direction of an effective organization of the control function, the management of which requires an executive who has been well trained in accounting, finance, production control, data analysis, data processing, planning methods and who fully understands all the problems of general management.

PART II . . . . . James L. Peirce

Straight to the Target

MY COMMENTS are in three areas: (1) The controller as the control center, (2) thoughts on the practical use of the control system, and (3) the planning function.

Dr. Villers' interesting presentation is on a subject that, if it were aimed at the heart interest of controllers, goes straight to the target.

THE CONTROLLER AS THE CONTROL CENTER

We may as well face frankly the implications of the language of control. Control is a concept which must permeate successful business. It must be *practiced* by *all* management. But it must be created, constructed, fostered, taught, coordinated, dissected, disseminated, applied and lived by *controllers.*

Only a controller manifests and expresses the philosophy of control at the executive level. A controller is Mr. Control himself and those who shy away from this fact either fail to understand its functional uses or live in an organization atmosphere of such failure to understand.

Industrial engineers *practice control* because they *must* do so. They are not controllers. The same may be said of budget managers, cost accountants, procedures specialists and operations research men. Control is too big to keep it locked up and hoarded. It must be shared with all who need it. And this is nearly everyone in management. But the controller is the central, top-level, policy-creating source of light and motivation in this powerful technique. He, and no one else, is the split atom that powers the control idea.

Some day we will see that the controller is only secondarily the company's chief accounting officer. His primary interest is control.

THE PRACTICAL USE OF THE CONTROL SYSTEM

The control system described by Dr. Villers is to the queen's taste. A tailored control book for everyone, selectively highlighting those figures needed for control of specific responsibilities, is a controller's dream. Most of us go part way on this course (striking a balance between tailoring and cost) and hope for the best.

But there is another aspect to all of this that is perhaps even more important —the *manner* in which these control tools are *used*. This goes deep into human nature, training, motivation and circumstances, and turns entirely on the relationship among the members of management. For examples:

1. If a president allows his top sales (or research or production) executive to overspend, there may be a reason. The gamble may be justified or the man may be a natural overspender—in which case the requested budget has to be cut 20% to allow for 25% overspending. Personal spending habits are often reflected in business affairs.

2. If a president is one who insists on confusing budgets with objectives (constantly trimming expense, stretching income) we will witness deviations from budgets, but the net outcome may still be good. This reflects a natural adjustment to circumstances and personal traits by all concerned.

Countless cases like these could be cited. This mainly shows that many control systems are far better than they appear. Also that their use in this fashion (or misuse) should not be too deeply regretted. The plan and its controls are sometimes a framework within which the top executive wheels and deals—and sometimes his talents in this way are exceedingly pleasing to the shareholders.

The essence of this is that control is a principle and its practice is molded to the individual characteristics of human beings. Controllers should remember this and not be discouraged if the pattern they prescribe is not strictly followed.

THE PLANNING FUNCTION

The pure planning function has generally been reserved for top and line management. Its delegation to staff has not yet begun to approach its maximum development. Still, there is increasing evidence of its moving in that direction. Planning titles of various sorts—sometimes preceded by "vice president," are sprouting here and there.

This is a subject that controllers, by and large, have not yet been willing to face squarely. The first of the Institute's stated controllership functions is "To establish, coordinate and administer, as an integral part of management, an adequate plan for the control of operations." Note that the key word here is "control"; it talks about a plan for the *control* of operations, not a plan for operations.

It has always been clear that control could not exist without a plan. *Who, then, is to establish and coordinate the planning itself? Is this incapable of delegation to staff personnel?* I think experience shows that it is not.

In the same sense that control must be *exercised* by top and line management, even though it is *coordinated* by a controller, it might be said that planning, though *constructed* by top and line management, may be *coordinated* by a planner. *Should this be the same man who is the controller?* At least such a concept would give expression to the fundamental "management planning and control" concept that we have felt to be basic to our function, and which even labels one of CIA's most important technical committees.

Perhaps the field of planning looms on our horizons as deserving a major amount of attention in the future.

PART III . . . *The Controller's Primary Weakness* . . . Dudley E. Browne

JOHN T. GARRITY of McKinsey & Company, in a speech before the Boston Control of Controllers Institute last fall, observed that the controller of today is *in practice* further away from actually living up to the concept of controllership than he was, say, ten years ago.

It is my observation that the controller's primary weakness today is in the field of assistance he attempts to give to his management in the area of planning. The controller's failure to adequately meet this requirement has led to the creation of such positions as manager of corporate planning, director of management information, or an assistant to the president charged with planning. In too many organizations, executive positions independent of the controller have been created and charged with the responsibility for the planning, controlling and interpretive functions which are so prominent in the Institute's concept of controllership.

We, who are controllers, are intimately familiar with the typical prescription for planning which might read as follows:

Define company objectives
Evaluate company strengths and weaknesses
Determine alternative courses of action
Evaluate the alternatives in the light of the objectives and limitations
Select the preferred courses of action
Translate it into subordinate plans
Implement the plans

This prescription sounds quite erudite unless the controller observes that the practicing physician and surgeon has an analogous check list—having in mind a well human being he determines, by consultation and examination, the extent of healthwise deviation of his patient, diagnoses the cause, and lays out a course of medication or surgery. Having done so, he monitors the results and thereby, hopefully, transforms his patient into a model of health. One realizes at this point that, while the check list is adequate, it takes a considerable background of medical knowledge and practice to ensure successful application.

Thus our typical prescription for planning, taken as a mnemonic device, as a checkoff list for the itinerant planner is unexceptionable; it does describe steps which are generally followed in the planning process. However, taken as a manual of training for would-be planners, the outline is vacuous. All it tells the novice is what steps he should follow, but it gives no information on the "what" and the "how" of each step. To obtain some insight into these, we have to return to these questions:

What are the objectives?
What are the strengths and weaknesses?
How does one set objectives?
How does one compare alternatives?
What are the basic variables and relations? etc., etc.

Our corporate organizations need a coherent statement of objectives in order to first, measure performance and, second, to evaluate alternative investment opportunities. Too frequently, corporate objectives are determined in Friday afternoon meetings at three o'clock which, in my opinion, is a sure way of painting a company into a corner. Such an approach fails to recognize the impermanence of objec-

(Continued on page 490)

Membership in Controllers Institute is NOT necessary to subscribe to THE CONTROLLER

Subscription Order Form

THE CONTROLLER, Two Park Avenue, New York 16, N. Y.

Enter my subscription to THE CONTROLLER for one year at $7.00

☐ Remittance herewith ☐ Invoice me ☐ Invoice my Company

Name and Title .....

Company .....

Company Address .....

City ..... Zone ..... State .....

The above information is needed for our records. If you wish THE CONTROLLER mailed to your home please fill in additional information below.

Home Address .....

City ..... Zone ..... State .....

Canadian and Foreign add 50c for postage. 10-60

MACHINES
MANPOWER
METHODS

USE OUR COMBINATION —
CUT YOUR DATA PROCESSING COSTS

Processing is done at our service centers—you only pay for *actual production* time per application. Costs are known in advance, results can be counted on because of our depth in—"Machines—Manpower—Methods".

No investment in rental, purchase and housing of machines, hiring and keeping personnel, or costly man-hours in working out handling methods.

Payroll Preparation • Sales Analyses • Accounts Payable & Receivable • Research Tabulation • Inventory Control — and many other statistical requirements, regardless of volume can be efficiently and economically handled at R & S.

We have proved our cost reducing and result getting data processing services to a cross-section of American business. We'd like to prove them to you—
Telephone or write Dept C-10 —no obligation of course.

RECORDING & STATISTICAL CORPORATION

Executive Offices: 176 Broadway • New York 38, N. Y.

Operating a nationwide system of regional service bureaus for data processing

New York: 100 Sixth Ave., New York 13, N. Y. WOrth 6-2700
Boston: 566 Atlantic Ave., Boston 5, Mass. Liberty 2-5365
Chicago: 223 W. Jackson Blvd., Chicago 6, Ill. HArrison 7-7357
San Francisco: 560 Sacramento St., San Francisco 11, Cal. EXbrook 2-4341
Montreal: 407 McGill St., Montreal, Canada. Victor 2-3831
Toronto: 439 Wellington St., W., Toronto, Canada. EMpire 3-4951

tives. Likewise, such an approach fails to recognize that the first effort at statement will probably be imperfect and the objectives listed will be unobtainable. A later attempt will bring to light the fact that they could have been better stated and the recognition that objectives are not permanent but are dynamic.

Corporate organizations cannot set objectives in a vacuum. They are involved in the conversion of resources—capital, labor, and material—into products in the form of goods or services. The corporation must evaluate its opportunity within this environment, and how it desires to operate therein is its statement of objectives. We must evaluate the strengths and weaknesses of the organization in terms of its historical background. We must evaluate management's personal desires. Industry norms must be evaluated so that performance standards may be set up, the firm's competitive position identified, and its growth pattern determined. The statement of corporate objectives is born from such a review.

Too few of us have realized that objectives may be classified into proximate goals, which may be quantified, and as aspirations or constraints, which are typically qualitative. Our proximate goals should provide adequate "near-time" objectives so as to ensure the organization's staying in business. They should include the desired return on investment, the rate of growth, the desired profit margin, the condition of inventory and capital assets, and must provide for financial flexibility. The aspirations will deal with the general ideals of the corporation and the constraints will serve to keep the organization out of trouble with its customers, its employes, and the Government.

A typical list of goals might include the following:

Proximate Goals

20% return on investment
10% per annum sales growth
10% sales margin
3 to 1 current ratio

Aspirations

Remain competitive through research and development expenditures
Enjoy friendly relations with shareholders
Build a reputation and evidence of progress

Constraints

Deal fairly with labor unions
Charge fair prices
Avoid antitrust problems

In short, until we as controllers are able to adequately serve our managements in the discharge of their planning function, we are likely to be faced with continuing evidence of the splintering of our function of controllership.

THE CARD WITH SPECIAL BACKING

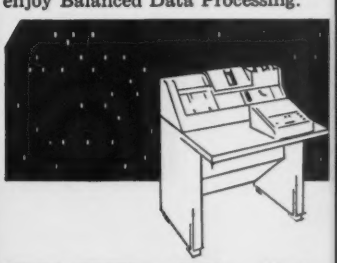
IBM design, quality and service

DESIGN—the *right* design is essentia to efficient data processing. Fron IBM's tremendous selection of stand ard and special cards, card sets, con tinuous forms, checks and specia card features . . . skilled personnel, i one of IBM's many Card Design Cen ters, blend just the right element into a design to best meet your spe cific needs.

QUALITY—for smooth-flowing, eco nomical data processing, you punched cards must consistentl meet the requirements imposed b your data processing machines. Al IBM cards are made to the most ex acting specifications by thoroughl trained personnel working with th proper tools. Every step in their man ufacture is governed by a qualit control program without parallel i the industry.

SERVICE—prompt, efficient and eco nomical service is important with an product. Through its nation-wid network of card plants and ware houses...and through its supplie specialists and sales representatives who know *both* card and machine re quirements...IBM can service prop erly any customer in America.

This special backing makes the IBM card a *value* unsurpassed in the in dustry . . . and represents one mor example of the way IBM helps you t enjoy Balanced Data Processing.



IBM®

SUPPLIES

Congress Gets Taxation Data in Latest Step by CIA Committee

EARLY THIS year it was learned that state tax commissioners were accumulating information to support their contention that multiple taxation on income derived from interstate commerce, and its impact on individual business, were not so serious as some people believed. This made it obvious that the burden of proof would be on industry.

In response, the Committee on State and Local Taxation of Controllers Institute of America circulated a questionnaire to all its members to learn the extent of multiple taxation upon their companies. After returns were tabulated, they were sent in July to the House Judiciary Committee in Washington, D. C., since the CIA group had been advised that this Committee would be working on the problem during this past summer.

The questionnaire was carefully designed so that any recipient could simply check "yes" or "no" to four questions and return it to the Committee. Two of the questions, however, asked for specific figures, if available, and the response was amazing. The questionnaire drew a 41% return and many of the replies gave actual facts and figures showing, for example, that 43% of the reporting firms apportioning income among states were required to apportion the same sales dollar in more than one state. As a matter of fact, multiple taxation was reported on as high as 198% of income.

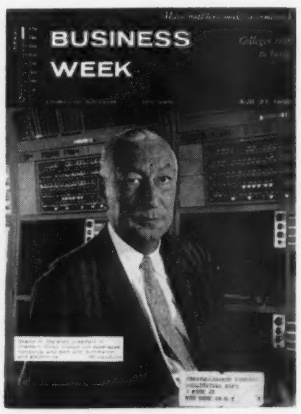
CONSISTENT EFFORT

For almost a decade the Committee on State and Local Taxation has concentrated its efforts primarily on the need for uniform laws and definitions with regard to the division of income for tax purposes between states, by those organizations engaged in multistate operations.

It was during the year 1951-1952 that the Committee recognized the alarming situation developing in the field of state taxation of interstate commerce and came to the conclusion that the states, in their efforts to raise revenues, were taking steps that would soon lead to a chaotic situation for firms shipping to customers in other states. The states were also starting to overstep the bounds of the commonly accepted definition of "doing business" and were assessing taxes on the basis of minimum representation in the state.

The Committee then decided on its future course of action and has pursued it diligently. A number of members of the Advisory Panel and the two technical advisors have served during the entire period, thus preserving continuity of effort.

One of the milestones in this complex and long-range program was the 1953 study made by Controllership Foundation culminating in the April 1954 publication of *Apportionment and Application Formulae and Factors used by States in Levying Taxes Based on, or Measured by, Net Income of Manufacturing, Distributive and Extractive Corporations.* Other milestones were the July 1954 report of the Committee to the Governors Conference at Saratoga and the Uniform Division of Income for Tax Purposes Act recommended by the National Conference of Commissioners on Uniform State Laws in July of 1957, after considerable consultation with the Committee.



WALTER P. MARSHALL, president of Western Union Telegraph Company, New York, takes a prominent place in an article describing progress in his company, presented in the August 27, 1960 issue of Business Week. Mr. Marshall is a member of the New York City Control of Controllers Institute.

Although the Uniform Law Commissioners' Proposed Act represented the furthest advance yet envisioned in a single instrument toward the elimination of multiple taxation on net income of taxpayers operating in more than one state, it embodied a new concept of taxation which could not be endorsed by the Committee. The new concept proposed that income apportioned to a state that did not impose an income tax should revert to the state of domicile. The Committee's objections were presented to interested tax officials and organizations but the replies received were not conclusive.

At its meeting in New York on February 17, 1959, the Committee considered the fact that for some months its efforts to promote uniformity by voicing objections to features in the act proposed by Uniform Law Commissioners had been of negative character. At that meeting a more positive approach was adopted and an alternative bill prepared for consideration by state legislatures. This proposal contained provisions designed to eliminate objectionable features in the bill submitted by the Uniform Law Commissioners and was widely distributed to interested officials.

COURT DECISION ROUSED INDUSTRY

Up to the time the Committee's alternative bill was prepared, most of the Committee's deliberations were predicated on the assumption that a corporation's income would be apportioned only to those states in which that corporation was "doing business." On February 24, 1959, however, the Supreme Court of the United States rendered decisions relating to interstate commerce which would have far-reaching effects and might make any corporation taxable in every state into which its goods were shipped.

It was then apparent that all bars to taxation of interstate commerce by the states had been let down and administrative costs to both government and industry would be increased tremendously. The Committee felt that Congressional action was the only means of obtaining a satisfactory solution and immediately sent its comments on the recent Supreme Court decision, together with a copy of its alternative bill, to members of interested Congressional committees. A very favorable reaction resulted.

The spring and summer of 1959 was a most hectic period in this field and the clamor aroused by industry resulted in unprecedented action by Congress. On September 14, 1959, Public Law 86-272 was signed by the President. That law placed restrictions on state taxing powers for the first time in the history of this nation, but it was only stopgap legislation. The law also contained provision for further study by the Senate Finance Committee and the House Judiciary Committee and requires those committees to present recommendations for permanent legislation by July 1, 1962.

The CIA Committee met as soon as Public Law 86-272 was enacted and agreed that industry would have to docu-

ment its views when the required Congressional hearings got under way. Notices were immediately inserted in the *Members' Bulletin* and members of the Institute were asked to accumulate factual data reporting developments for the use of the Committee, but the response was weak. When it was then learned that the state tax commissioners were collecting data to support their claims with regard to multiple taxation, the above-mentioned questionnaire was sent to Institute members.

The information received by the Committee through this questionnaire came from a total of 1,199 of the largest business organizations in the nation, and is factual data available to the Congress from no other source.

Besides giving this information to the House Judiciary Committee, the CIA group has offered to meet with the House Committee, whenever it is ready, to hear its views in detail. The letter of transmittal and the questionnaire summary have also been sent to the Senate Finance Committee and other interested bodies.

The CIA Committee on State and Local Taxation also recognizes the extreme difficulty in determining whether certain corporate activities constitute doing business in some states, which in turn places many firms in a hazardous position as they may later be overruled in their contentions that they have no tax liabilities in some of the states in which they now operate. In view of this situation, the Committee is attempting to promulgate a comprehensive and clear definition of what constitutes "doing business." It is also considering the possibility of coordinating state and federal tax returns with the objective of simplifying reporting and reducing administrative costs.

Business Travel with Wife Found Deductible By Court

Despite recent crackdowns by the Internal Revenue Service, some travel expenses can be deducted from income for tax purposes. Recently one court said that a man might even take his wife along and deduct her expenses.

According to the *New York Times,* the case concerned a field representative of an insurance company. As an award, he was sent with his wife to a convention at a distant resort. He attended technical talks and took part with his wife in tours and recreation.

The expenses of the couple were judged by the IRS to be income. When this decision was appealed at a United States District Court in Alabama, the Court held that the convention was an inherent part of the company training program and that recreation did not detract from the business character of the trip. The wife's presence was said to lend "a higher tone" to the meeting.

OCTOBER 23-26, 1960

FAIRMONT HOTEL

29th Annual International Conference

SAN FRANCISCO • GATEWAY TO THE ORIENT •

Controllers Institute of America

DON'T MISS . . .

Roy Reierson, Vice President, Bankers Trust Company, on the economic situation. A recognized authority on economics, money and banking, he is also chief economist and a member of the bank's senior management group.

A look at business education: Thomas H. Carroll, President-elect, George Washington University, will examine shortcomings of the business school system; Richard Donham, Dean of the School of Business at Northwestern University, will present the business school side; and Hans C. Todt, Comptroller of Bristol Laboratories Inc., and Chairman of Controllers Institute's Education Committee, representing the employer, will discuss what is expected of the schools.

Standard Oil Company of California presenting their management planning and control program. Moderated by Wilson K. Minor, Comptroller, the program features "Management Planning and Control in Action" by H. G. Vesper, President of Standard's Western Operations, Inc.; "Planning and Control: Wage and Salary Administration" by F. W. Piersol, Manager, Department on Organization; "Electronic Computers for Operations Planning and Control" by H. W. Crandall, Manager, Electronic Computer Center.

Dr. Lee DuBridge, President of the California Institute of Technology.

"Free Enterprise or Disaster" by Dr. Nicholas Nyaradi, Director, Bradley University Institute of International Studies.

"Are We in for A Federal Tax Revolution?" by J. S. Seidman, President, American Institute of Certified Public Accountants.

Two concurrent technical sessions: Profit Improvement—The Controller's Challenge presented by Booz, Allen and Hamilton; and The Impact on American Business of Foreign Political and Economic Developments moderated by John Shallenberger, Consultant, International Committee for Scientific Management, and formerly with Stanford Research Institute; and featuring John O. Tomb of McKinsey & Company; John Ewing of the Stanford Graduate School of Business; and Frank Turner of the Stanford Research Institute.

Concurrent Industry Round Tables . . . Apparel; Banking and Investment; Cement; Chemical, Paint and Allied Products; Drugs and Cosmetics; Electrical Manufacturing; Fire and Casualty Insurance; Foods, Beverages and Allied Products; General Manufacturing; Life Insurance; Machinery Manufacturing; Metals Manufacturing; Mining and Extractive; Office Equipment; Paper Products; Printing and Publishing; Public Utilities; Textiles; Transportation.

PLUS . . . An all-day wine tasting tour of the Napa Valley on Saturday, October 22nd. . . . Reception on Sunday evening. . . . Dinner dance and show Tuesday night.

SPONSORED BY SAN FRANCISCO CONTROL

Paging the New Books

FINANCIAL INCENTIVES FOR MANAGEMENT*

By Richard C. Smyth

Reviewed by HAROLD E. BOEHM
Treasurer, Towmotor Corporation
Cleveland, Ohio

Are you and fellow executives in your company being paid fairly and in such a manner as to inspire superior managerial performance?

If you know that the answer to this question is affirmative, don't bother to read *Financial Incentives for Management.* If you are doubtful, or are responsible for maintaining or improving a compensation system, this book presents a superbly logical analysis and discussion of the concepts, plans and techniques necessary to solve the problems of formulating an integrated managerial compensation program.

A real appeal of Richard Smyth's work is its adaptability to whatever type of reading you care to make in this subject area. If your company has a basically sound managerial payment plan which needs only occasional review and improvement, this volume lends itself to easy skimming with such selections of timely topics for intensive study as best fit your current requirements. If the need is for a comprehensive reference treatise to help design and tailor a payment system from A to Z, this volume is in sufficient detail to serve as an excellent technical manual.

I hesitate, in a review, to march through the book chapter by chapter, but to avoid doing so would be to circumvent the logical subject development which is one of the book's primary assets. So let's follow Mr. Smyth's well-charted trail.

The first page of Chapter 1 opens on a sure-fire theme certain to be close to a managerial employe's heart. After defining managerial employes as embracing a range from the foreman to the chairman of the board of directors, our author states, "Certainly the various levels of management are relatively less well off today in terms of compensation than they were some years ago." *We're all on his side already, aren't we?*

With this well-chosen beginning properly documented, the first chapter moves on to some philosophic discussion of:

1. Three basic objectives of any management compensation program from the point of view of the ownership of the business;
2. The reasonableness of compensation from the standpoint of government, stockholders, employe groups outside of management, and the general public; and
3. Three basic components of an effective management incentive compensation program.

In a capsule, the objectives referred to in 1. above are, to attract, to retain, and to motivate a competent management to sustained optimum efforts in accomplishing the goals of ownership or of the board of directors.

While accomplishing these objectives, our author says that a compensation plan must be considered to be reasonable by government, stockholders, employe groups and the general public. As might be expected, the problems in this area are somewhat difficult to define and come to grips with. My best, if somewhat facetious, interpretation in this area is that compensation shouldn't be too high or too low and that circumstances alter concepts of height and depth.

At this point, the preliminary ground work has been prepared and we're ready to go forward to the solid core of the book's theme, the three basic components of an effective management compensation program (1. Base Salary; 2. Short-Term Financial Incentives; 3. Long-Term Financial Incentives) and the organization structure within which the program exists.

Organization analysis is covered in Chapter 2 as a significant subject in that management incentive compensation programs will be most effective in companies whose organizational structures are sound, well defined, and clearly understood by all concerned. This section is designed to guide the reader in carrying out an organization analysis and in developing the sound structure desired.

Two basic concepts of organization are set forth. One is that "the man makes the job" and the other holds that there are well-defined principles of organization that should be followed in building an organization structure and that the basic structure must be planned without regard to individuals. The position of our author is that the concepts are somewhat compatible.

The matter of base salary is considered by Mr. Smyth to be the first and most basic consideration. Chapters 3 through 5 cover this phase with the subjects of evaluation of management positions, determination of salary ranges, and salary administration and control.

It is recommended that the function analysis evaluation plan be used to evaluate management positions. This plan is detailed in the text and uses the best features of the "point" and "factor comparison" concepts. A thorough coverage is given to determination of equitable salaries and sensible control and administration thereof.

Short-term financial incentives are those focusing attention primarily on current operations. It is assumed that different groups within the broad managerial scope will have some differences in motivation. Therefore, separate chapters are devoted to executive incentive bonus plans, supervisory incentive bonus plans, salesmen's incentive bonus plans, and some case examples.

Although the variety of factors involved in building specific plans seems to approach the infinite, the common theme is apparent. The plan must provide benefits to both the company and the managerial employe.

Long-term financial incentives are designed to focus attention on the long-range picture and are covered in Chapters 10 and 11.

Without consideration of these factors, shortsighted actions aimed at quick profit and bonus could easily be detrimental to the company's real welfare. Elevating the sights to the horizons is accomplished through providing ownership opportuni-

* *Published by McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 36, N. Y. $8.50.*

ties via stock options and stock purchase plans, and through deferment of income.

Appended to the regular text are functional charts, and specific incentive bonus, stock option, and stock purchase plans of 20 well-known companies.

Those who are still with me undoubtedly have real interest in the topics covered, despite my efforts. To you I sincerely recommend a personal exploration of this logically outlined and clearly written exposition. If your company has a good program, you may be stimulated to some improvements. If no program exists, here is the material to guide your efforts in improving motivation and profit.

Tax-Saving Compensation Plans*

Devoted to ideas on ways to trim high-salary taxes, this booklet analyzes new Internal Revenue Service directives on compensation plans or contracts set up to spread executive earnings over a number of years. Feature sections discuss significant plans for deferring salary, bonus compensation, royalty income, commission income, and deferment of royalty income. Attention is called to ways of funding or effecting a plan through investments in securities, life insurance, endowment and annuity policies.

** Published by Commerce Clearing House, Inc., 420 Lexington Ave., New York 17, N. Y. 50 cents (minimum order: two copies).*

Accounting for Stock Options*

By Daniel L. Sweeney

It is the author's stated purpose to bring together available material on executive stock option plans; to analyze it systematically in terms of (1) stated objectives and apparent objectives imputed from contractual provisions, and (2) action taken by all parties to the contracts; and then to draw conclusions as to what accounting procedure is appropriate to record the impact of this transaction in the corporate accounts.

Contents include: Distinctive features of executive stock options; provisions in recent stock option plans; federal income tax treatment of stock options; accounting techniques; accounting disclosure of the transaction; cash-value-of-services concept; cash value of options in the accounts.

** Published by the Bureau of Business Research, School of Business Administration, University of Michigan, Ann Arbor, Mich. $5.00.*

Books, Forms and Studies

BY FREDERICK M. EISNER, C.P.A.

Used in teaching his courses on Distribution Cost Accounting and Controls for Cost Reduction Purposes at the Baruch School of Business Administration, City College, N. Y.

Complete set ..... $15.

Charles M. Eisner, 70 Linda Ave., White Plains, N. Y.

THINK BIG

No company is too small to apply the principles of planning & control to its operation.

BUT NOT TOO BIG

Conversely, size is no protection against the consequences of a poor planning & control program.

MANAGEMENT PLANNING AND CONTROL: The H. J. Heinz Approach . . . $3.00

FIND OUT HOW an outstanding company employs the basic principles of planning and control and puts them into effective coordinated operation. Use the Heinz techniques in your own business and benefit from the experience of a company that proved that profits are planned—not accidental.

PLANNING, MANAGING & MEASURING THE BUSINESS: at General Electric Company $2.00

HOW planning and control can be applied to an operating unit with $10 million gross sales; how group P&C operations use special staff skills; how product group P&C is integrated with that of other groups; how GE looks ahead on planning, measuring performance and appraising new techniques.

BUSINESS BUDGETING: A Survey of Management Planning and Control Practices $12.50

ACTUAL management practices based on personal interviews—procedures to implement management planning and control; line and staff participation; use of reports; how budget procedures enter into basic functions of planning and control; appraisal and summary of budgeting practices.

USE THIS COUPON TO ORDER

☐ Heinz ☐ General Electric ☐ Budgeting

Name .....

Firm .....

Address .....

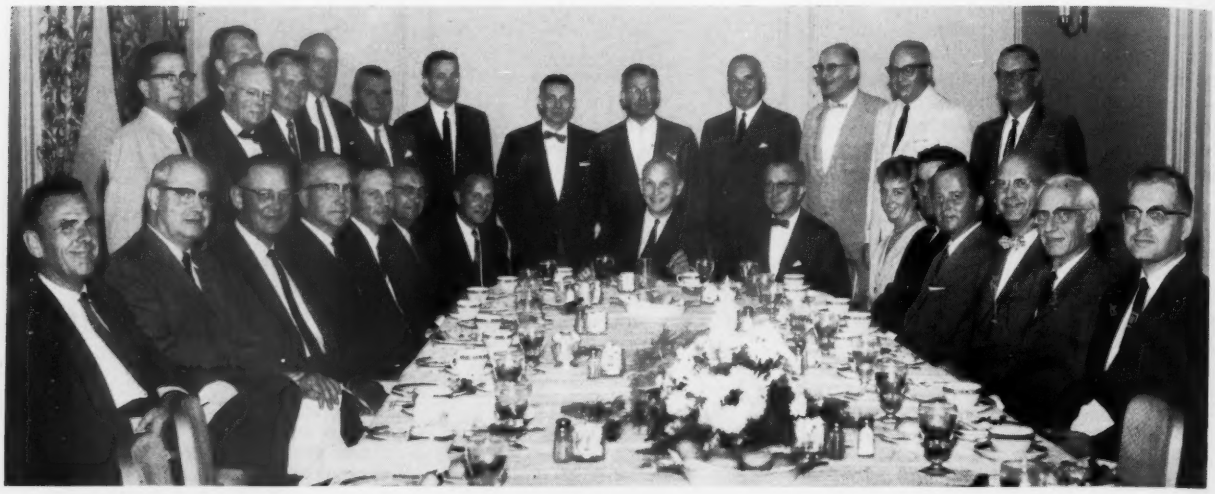
.....

☐ Check enclosed. ☐ Bill me. ☐ Bill my firm.

Orders from outside continental U. S. and Canada must be accompanied by remittance.

CONTROLLERS INSTITUTE RESEARCH FOUNDATION
TWO PARK AVE., N. Y. 16, N. Y.

LONG SHOTS & CLOSEUPS WITH THE CONTROLLER CAMERA



Rye, N.Y.

In mid-August trustees of Controllers Institute Research Foundation plus many Institute officers and directors met at dinner to discuss research projects for the coming year. At the head of the table is Robert L. Dickson, 1958-1960 president of the Foundation. Mr. Dickson is executive vice president, Walter Kidde & Company, Inc. Seated immediately to Mr. Dickson's right is L. C. Guest, Jr., who was elected president of Controllers Institute Research Foundation for the 1960-1961 year. Mr. Guest is vice president and controller, General Telephone and Electronics Corporation. *(Continued on facing page)*

(Continued from facing page 496)

(CENTER)

Just prior to taking office on September 1, Frank S. Capon, the 1960-1961 president of Controllers Institute, met with the 1959-1960 president, Roger A. Yoder, and called a meeting of the incoming Area vice presidents. Seated *(left to right)* are: Edward M. Karrmann, vice president, North Central Area and treasurer and controller, American United Life Insurance Co.; Burdette A. Johnson, vice president, Northeastern Area and treasurer, New England Gas and Electric Association; Stuart W. McLaughlin, vice president, Eastern Area and comptroller, West Virginia Pulp and Paper Company; Frank S. Capon, president of Controllers Institute and vice president of Du Pont of Canada Limited; and Herbert F. Walton, vice president, Midwestern Area and vice president, Allstate Insurance Company.

Standing *(left to right)* are: Paul Haase, managing director of Controllers Institute; Steve H. Bomar, vice president, Southern Area and senior vice president and secretary-treasurer, Trust Company of Georgia; Roger A. Yoder, chairman of the CIA Board and vice president-finance, Detroit Steel Corporation; J. McCall Hughes, immediate past chairman of the CIA Board and executive vice president, Mutual of New York; and Harold K. Merrill, vice president, Western Area and vice president-finance and treasurer, Timber Structures, Inc.

(LOWER LEFT)

Indianapolis, Ind.

Members of the North Central Area Operations Committee of Controllers Institute met on September 16 to review plans and programs. Among those present, in addition to Institute President Frank S. Capon of Montreal *(standing right)* and Area Vice President Edward M. Karrmann of Indianapolis *(standing left)*, were:

(Seated around the table left to right) Gordon R. Graham, president of the Pittsburgh Control; Paul R. Langdon (Columbus Control), member of the CIA Board of Directors from Region V; Charles P. Reynolds, Jr., president of the Cincinnati Control; Roger F. Brown, president of the Cleveland Control; Maurice E. Griffin (Detroit Control), member of the CIA Board of Directors from Region V; John L. Bubul, president of the Indianapolis Control; Paul Haase, managing director of Controllers Institute; Carl A. Gunkler, Jr., president of the Fort Wayne Control; William H. Farrar, president of the Columbus Control; and Dean P. Fite (Cincinnati Control), who will serve as general chairman of the 1961 North Central Conference of Controllers Institute.

This Committee is made up of presidents of the Controls in the two Regions comprising the Area, members of the Board of Directors of the Institute and the Board of Trustees of Controllers Institute Research Foundation within the Area.

Now! *Any* accounting firm or department can eliminate the big typing load that is a costly, time-taking headache during tax season. With Bruning's remarkable new Copyflex Model 105 copying machine – priced no higher than a standard typewriter – you can make sharp, low-cost copies of tax returns and supporting schedules directly from government and state approved translucent forms. Accountants fill in the forms (printed on one side only) with pencil, ink, or typewriter. Copyflex reproduces all necessary copies quickly and easily at a cost of only 1¢ each for materials for letter size. And any Copyflex copy is acceptable for filing. You save many hundreds of dollars in typing cost, get tax returns and schedules out days to weeks earlier. You just can't afford not to investigate by mailing the coupon below.

BRUNING Copyflex®

Charles Bruning Company, Inc., Dept. 10-m 1800 Central Rd., Mt. Prospect, Ill.
Offices in Principal U.S. Cities • In Canada: 103 Church Street, Toronto 1, Ontario

Please send me information on your low-cost Copyflex Model 105 for tax returns and accounting.

Name_____ Title_____

Company_____

Address_____

City_____ County_____ State_____

The scope of LLOYD-THOMAS APPRAISAL SERVICE

**Property, cost and general accounting*

Appraisals for property ledger records . . . depreciation and obsolescence studies . . . fixed asset accounts . . . intangible property valuations, good-will, trademarks, patents . . . continuous and up-to-date property records.

In addition, Lloyd-Thomas appraisals meet all valuation needs for insurance, corporation finance, property records.

For complete information, write Dept. CON.

THE LLOYD-THOMAS CO.
Recognized Appraisal Authorities
4411 Ravenswood Ave., Chicago 40, Ill.

Representatives Coast to Coast
First for Factual Appraisals Since 1910

FINANCIAL ANALYST

For Comptroller's staff of major industrial chemical company with New York City headquarters.

To develop and administer program for cost control system, budget for profit planning and analyses of financial statements at corporate level.

Position requires extensive experience in corporate accounting, budgets and costs. Previous supervisory experience preferred.

Send resume with salary history and requirements to

Box D 2471
THE CONTROLLER
Two Park Ave., New York 16, N. Y.

World Standards Being Set for EDP Systems, Office Machines

Two broad programs for the international standardization of data-processing machines (including electronic computers) and office machines have been announced by the Office Equipment Manufacturers Institute, Washington, D. C. Both programs will be sponsored by the American Standards Association (ASA). They are expected to lead to savings for equipment users.

According to Alfred J. Ball, president of OEMI, Dr. Joseph W. Barker, former Dean of the Columbia University School of Engineering, will serve as technical consultant to the Institute. Dr. Barker will give guidance to both standardization programs and actively direct the organization of the data-processing program. Carl P. Ray, vice president of Royal McBee Corporation, will direct the organization of the office machines program.

The efforts of the data-processing program are expected to result in logical systems standards, including a common language, which will enable users of electronic data-processing equipment to interchange information and programs among computers. At the present time, data-processing programs are designed for the equipment of individual manufacturers and must be converted for use in any other manufacturer's product. The new standards will be disseminated by the International Organization for Standards.

Management Weak in Planning, Say Many in "Presidents' Panel"

The Presidents' Panel of *Dun's Review*, numbering 171 chief executives, recently expressed its views on several aspects of American management. As to weaknesses, nearly half the panelists think the greatest is failure to plan or forecast adequately. Many also say management shows too little ability to change or remain flexible.

The great majority of the presidents say the successful companies do not have any "secret formulas" for good management. Their approach could be adopted readily by other organizations. Basically, the ideal American company, according to the presidents, "is working now for development of its future management, the capable decisive men who can meet the coming challenge."

"Electronic Library" Speeds Up Research

Progress in information retrieval—the name given to techniques being developed to gain immediate access to stored information—became evident recently with a demonstration by an IBM 650 data-processing system.

At the convention of the American Bar Association held in September at Washington, D. C., the system performed as an electronic law library, providing in minutes facts that would have taken hours to find by ordinary methods. The 650 proved able to search for, find and print out the full text of laws from various states on health and hospitals.

Product Development Budgets Expand

Before the year is out, some 400 corporations representative of U. S. industry will spend an average of 10.7 per cent more for development of new products and processes than they did in 1959. This is the prediction of the American Management Association, based upon a national survey.

Of 402 corporations drawn from 26 industry groups, 66 per cent increased their budgets, seven per cent decreased them, and 27 per cent reported no change. Budget changes ranged from an average decrease of 11.8 per cent in mineral and coal mining and 5.2 per cent in publishing, to increases of 16.8 per cent in electronics and 22 per cent in miscellaneous machinery and parts.

Other leading industry increases in budgeted costs directly associated with development of new products and processes are: glass, stone and clay, 19.2 per cent; plastics and molded products, 14.6 per cent; public utilities, 14.3 per cent; instruments and control equipment, 14 per cent; and food and beverages, 13.1 per cent.

EDP Programming School Opens

The Systems Research Institute, for advanced professional training in system programming, has opened on the United Nations Plaza, New York. The Institute, run by the International Business Machines Corporation, is expected to graduate more than a thousand computer specialists in the next five years. The first class consists of 35 men from the United States, Canada, Germany and the United Kingdom.

Campaign Contributions Subject to Gift Tax

In its Federal Tax Guide, Commerce Clearing House sheds light on the tax status of contributions to political campaigns.

Such contributions are not deductible on income tax returns, either as business expenses or as contributions. They are gifts in the eyes of the federal tax collector, the CCH report says. A gift for political purposes is no different from any other gift, and is subject to federal gift tax rates ranging from 2¼ per cent to 53¾ per cent. Thus the tax will be imposed on each gift which exceeds $3,000, unless part of the $30,000 lifetime exemption is used.

Since the U. S. Supreme Court has stated that a political campaign is not to be considered a transaction entered into for profit, the money spent in an unsuccessful campaign is not deductible as a loss. The candidate himself, whether he loses or wins, does not have to pay a tax on any contribution to his cause.

Capital Outlay Higher in 1960 But Leveling Off in Second Half

American business is planning to spend for plant and equipment at the seasonally adjusted annual rate of about $37 billion in each of the last two quarters of this year—10 per cent above a year ago—according to the regular quarterly survey conducted jointly by the Securities and Exchange Commission and the Department of Commerce in late July and August. Expenditures in the first two quarters of 1960 were at the annual rates of $35 billion and $36¼ billion, respectively.

Investment for 1960 is now expected to be $36 1/3 billion, 12 per cent more than the $32½ billion total for 1959. Programs for this year have been revised downward slightly and are now about two per cent below the amount indicated in the March survey. As previously anticipated, businessmen expect plant and equipment expenditures, which have risen almost one fourth since the low in 1958, to level off during the second half of this year.

Producers expect to spend about 20 per cent more on plant and equipment in 1960 than in 1959 with durable goods manufacturers showing the larger relative gain. Railroad and communication company outlays this year will probably be about 15 per cent above 1959.

Duffy's inc.
Expert Space Planning Means Efficient and Economical Office Operation
PLANNERS & DESIGNERS
Phone or Write
53 Park Pl., New York 7, N. Y., WOrth 2-6080

at last, an unlimited office copying machine

the new ROYFAX by Royal McBee

It overcomes the bothersome limitations of all previous copiers.

COPIES EVERYTHING—Royfax is *unlimited* in what it will copy—print, pencil, crayon, ball-point pen, ink; all colors as well as any printed photograph. And it copies from all kinds of paper.

COPIES PERMANENTLY—if you copy it on a Royfax, it will keep for an *unlimited* length of time, will last as long as the paper without fading or darkening due to heat or light.

COPIES QUICKLY—the operator is *unlimited* by the working time of Royfax. The few seconds needed to produce a copy are just long enough to set up the next piece for copying.

COPIES SAFELY—The solution tray is solidly fastened, surrounded by a waterproof well; the electrical mechanism is behind a shield and the current goes off when the cover is lifted.

COPIES ANYWHERE—*unlimited* in location . . . easy-to-carry Royfax can be used wherever there is an ordinary electric outlet.

COPIES IN ANY LIGHT—Royfax works in *unlimited* number of light conditions . . . no darkrooms needed.

COPIES EASILY—the number of people who can operate Royfax is *unlimited*. Anyone can learn quickly without special training.

COPIES UNLIMITED—Royfax can make aluminum offset plates, giving up to 20,000 copies. It can also reproduce originals on film.

COPIES ECONOMICALLY—*unlimited* Royfax makes individual copies for just pennies per copy.

ROYAL McBEE CORP. • Port Chester, New York

ROYAL®

Please give me full free information on the new unlimited office copying machine, the Royfax, by Royal McBee.

Name_____ Title_____

Company_____

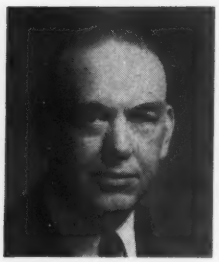
Address_____

City_____ Zone_____ State_____

E

Royal typewriters for best originals . . . Royfax for best copies.

Personal Notes



MR. CARTER

MR. ANDERSON

MR. MAX SIMPSON

MR. CAPON

MR. PLACE

TOP MEN . . .

Maynard F. Carter, vice president, secretary and controller of Worcester Pressed Steel Company, Worcester, Mass., has been elected president of Westprest, Inc., a subsidiary.

PROMOTIONS . . .

Harold E. Anderson was recently elected comptroller of the Eagle-Picher Company, Cincinnati, Ohio. . . . The election of **Frank B. Powers** as executive vice president of Burnside Steel Foundry Company, Chicago, Ill., occurred recently. . . . **Andrew J. Deiches** is now vice president-finance and administration of Filtors, Inc., Port Washington, N. Y.

J. R. Simpson is treasurer of Kennecott Copper Corporation, New York. . . . **Harry G. Bowles** has become vice president and controller as well as chairman of the Financial Planning Committee, of Burroughs Corporation, Detroit, Mich. . . . The appointment of **Stephen S. Waldron** as assistant division comptroller of the Utah Copper Division of Kennecott Copper Corporation, Salt Lake City, Utah, was announced recently.

L. J. Sauers was named executive vice president and general manager of American Home Products Corporation, New York. . . . **Max S. Simpson** is controller of Socony Mobil Oil Company, New York. Mr. Simpson served as president of the Newark Control of Controllers Institute last year.

COMPANY CHANGES . . .

Frank S. Capon has become vice president of Du Pont of Canada Limited, Montreal, Quebec., Canada. **Kenneth M. Place** has succeeded Mr. Capon as treasurer. Both men are active in the affairs of Controllers Institute; Mr. Capon is the Institute's 1960-1961 president and Mr. Place was president of the Montreal Control last year. . . . **Richard C. Gerstenberg** was elected vice president in charge of the financial staff of General Motors Corporation, Detroit, Mich. **Oscar A. Lundin** was elected to succeed him as treasurer.

NEW APPOINTMENTS . . .

Earle N. Martin, Sr., treasurer and assistant secretary of Gulf States Land & Industries, Inc., New Orleans, La., was elected a director. . . . The election of **R. Palmer Hollister** as treasurer of R. Hoe & Co., Inc., New York, was announced recently. . . . **George F. Lamb, Jr.,** treasurer of American Sugar Refining Company, New York, was elected a director of Spreckels Sugar Company, San Francisco, Calif. . . . **D. J. Schreiber** has been elected vice president of the Mid-States Division of Vought Industries, Inc.,

(Continued on page 502)

ACCOUNTING EXECUTIVE

Exceptional career opportunity with leading national firm of certified public accountants. Current opening at partnership level for outstanding financial officer with recent public accounting experience. Must be a CPA.

Exacting standards of personality and mental ability. Must be able to deal effectively with top-level executives.

Location: New York City.

Age flexible but preferably early thirties to mid-forties.

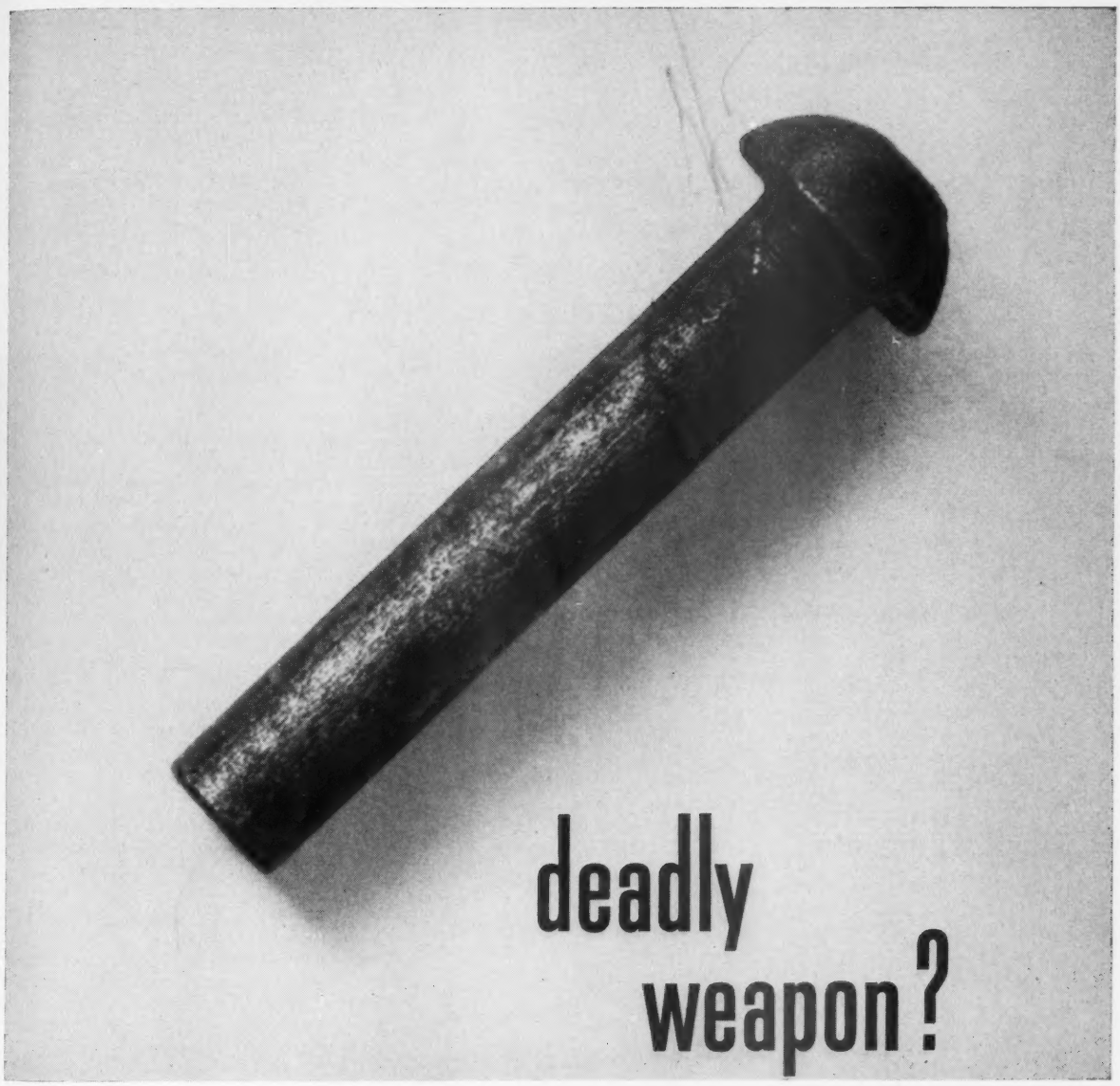
Most attractive five figure compensation, commensurate with man's qualifications and experience.

Qualified persons submit detailed resumes for initial consideration. If currently unavailable, discussions can be arranged at a later date. All confidences will be fully respected.

Reply to Box D 2470

THE CONTROLLER

Two Park Ave. New York 16, N. Y.



Could be . . . defective rivets have been responsible for many disastrous boiler explosions. But most such defects can be detected.

Skilled inspection service from Kemper Insurance Company engineers working in cooperation with your own employees is your best possible safeguard against boiler explosions or mechanical failures. We can help keep your power equipment safe and, at the same time, provide relief from financial loss if disaster should strike.

Our companies are well known for providing outstanding engineering and inspection service *and* for savings to policyholders through dividend-paying policies. You'll find that our interest in your plant's safety record is as real as your own.

That's why so many firms—large and small—look to Kemper Insurance companies to protect their investment. Don't take a chance with the life of your business! Ask about our boiler and machinery hazards survey—no obligation, of course.

Lumbermens Mutual Casualty Company **American Motorists Insurance Company**

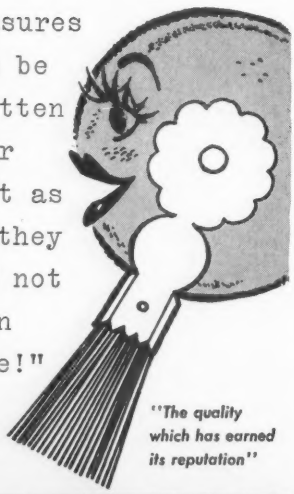
divisions of KEMPER INSURANCE *Chicago 40*

"Modern posting machines like nothing better than to work with famous L. L. BROWN

ESCORT LEDGER

What's more, L.L.B. makes 120 items of ESCORT LEDGER. Matching colors available in INDEX BRISTOL. For the ability to withstand thumbing, creasing and general rough handling, always specify these quality papers. Ideal for machine or manual posting.

"Erasures can be written over just as if they had not been made!"



"The quality which has earned its reputation"

L. L. BROWN PAPER COMPANY

ADAMS, MASSACHUSETTS

MR. RICHARDSON

MR. MacARTHUR

MR. KLEIN

Personal Notes *(Continued from page 500)*

Battle Creek, Mich. . . . **Philip H. Kirshen,** vice president and comptroller of United Merchants & Manufacturers, Inc., New York, was elected to his company's Board of Directors. . . . **Forest D. Richardson** has been named treasurer in charge of finance and business administration of Young Radiator Company, Racine, Wisconsin. . . . **Ralph E. Waite** has been appointed administrator and assistant controller for Macy's New York.

ADDITIONAL DUTIES . . .

Clifford D. Cherry, vice president and treasurer of the Greyhound Corporation, Chicago, Ill., has also been appointed assistant to the president. . . . **Samuel E. MacArthur** recently became executive assistant to the president and treasurer of Federal-Mogul-Bower Bearings, Inc., Detroit, Mich.

NEW CONNECTIONS . . .

Russell T. Walker was elected vice president and general manager of Montgomery Ward Credit Corp., Chicago, Ill. . . . The announcement of the appointment of **J. S. Warshauer** as vice president-administration and finance of United Industrial Corporation, Los Angeles, Calif., was made recently. . . . **R. Leslie Ellis** was named controller of International Operations, Subsidiaries and Defense Operations of Armstrong Cork Company, Lancaster, Pa. . . . **Thomas G. Leonard** is now controller of Lefcourt Realty Corporation, Miami, Fla. . . . **Norbert T. Casper** recently became controller of the Milwaukee Crane Division of Novo Industrial Corporation, Cudahy, Wis. . . . The appointment of **Charles W. Coleman** as controller of National Pneumatic Co., Inc., New York, was announced recently. . . . **Eugene A. Horvath** was appointed controller of Electronic Communications, Inc., St. Petersburg, Fla.

EXTRACURRICULAR ACTIVITIES . . .

Fred J. Hertel, assistant treasurer, Elgin National Watch Company, Elgin, Ill., was appointed to a three-year term on the National Committee on Professional Development and Education of the National Association of Credit Management. . . . **Frank Klein,** vice president, Worthington Corporation, Harrison, N. J., recently conducted two seminars in Buenos Aires, Argentina, on the subject of "Financial Controls."

SPEAKERS . . .

George W. Robinson, comptroller, Sharon Steel Corporation, Sharon, Pa., acted as panel leader for the Sixth Annual Accounting Study Conference held August 21-24 at Pennsylvania State University, University Park, Pa. . . . **S. D. Williams,** assistant controller, Sohio Petroleum Company, Oklahoma City, Okla., spoke to the Oklahoma City Chapter of the NAA on "Responsibility Accounting" in September. He will be a speaker at the Oklahoma City Chapter of the Petroleum Accountants Society of Oklahoma on "The Accountant's Role in Oil Field Unitizations" in October.

Munro Corbin, vice president-finance, Rockwell Manufacturing Company, Pittsburgh, Pa., co-chaired the AMA Seminar on Management Controls at the Hotel Astor, New York, September 19-21. . . . **V. Leonard Hanna,** vice president-finance and treasurer, Fenestra Incorporated, Detroit, Mich., was one of the speakers at the AMA Profitability Accounting and Control Seminar at Saranac Lake, N. Y., October 3-7.

Co-chairmen at the seminar on "Return-On Investment Concept as a Management Tool," October 5-7, Hotel Astor, New York, were **H. Bialecki,** controller, Olin Mathieson Chemical Corp., Winchester-Western Division, New Haven, Conn., and **Robert W. Fort,** vice president-finance, Medusa Portland Cement Co., Cleveland Heights, Ohio.

AUTHORS . . .

Robert W. Arnold, controller, Anderson Electric Corporation, Birmingham, Ala., authored an article on "Inventory Management" in *The Woman CPA,* February 1960 issue. . . . **F. Norman Anderton,** treasurer, Vulcan Materials Company, Birmingham, Ala., and **D. W. Boylan,** controller, Packaging Corporation of America, Evanston, Ill., co-authored an article entitled "Machine-Hour Rates in a Folding Box Company" which appeared in the July 1960 issue of the *NAA Bulletin.*

The
National State Bank
OF NEWARK, N. J.

Established 1812

Statement at the close of Business
June 30, 1960

RESOURCES

Cash and Due from Banks	$ 92,642,421.36
Securities—U.S. Government and its Agencies	61,708,369.98
Securities—State and Municipal	41,238,727.67
Other Bonds and Investments	13,151,703.49
Loans and Discounts	172,446,827.02
Real Estate Loans—Insured or Guaranteed	40,581,964.48
Banking Houses—Furniture and Fixtures	4,530,080.15
Accrued Interest and Other Resources	2,249,955.44
	$428,550,049.59

LIABILITIES AND CAPITAL

Capital ($12.50 par value)		$ 7,000,000.00
Surplus		20,000,000.00
Profits		4,518,829.00
Voluntary Reserves		3,527,785.02
Reserve for Taxes, Interest, etc.		2,253,733.49
Reserve for Dividend		350,000.00
Unearned Discount and Other Liabilities		8,075,892.38
Bills Payable		15,000,000.00
Deposits—		
Demand	$280,793,700.32	
Time	87,030,109.38	367,823,809.70
		$428,550,049.59

United States Government Securities at $27,349,876.81 are pledged to secure Public and Trust deposits and other Liabilities as required by law.

Serving Newark and Suburban Essex with 22 convenient offices...

IRVINGTON • ORANGE • MILLBURN-SHORT HILLS
WEST ESSEX-CALDWELL

Member Federal Deposit Insurance Corporation

DIRECTORS

W. PAUL STILLMAN
Chairman and President

JUNIOR C. BUCK
President, Hahne & Company
Director, Associated Dry Goods Corp.

ALEX CALDER
Honorary Chairman of the Board,
Union Bag-Camp Paper Corporation

JOHN J. CLANCY
Lawyer

DAVID J. CONNOLLY
Vice Chairman

HERBERT M. ELLEND
Lawyer

FREDERICK H. GROEL
Vice President and Secretary,
The Prudential Insurance Co. of America

JAMES V. IGOE
Member, New York Stock Exchange

MICHAEL A. JACKSON
President,
Meyer & Bush Company

ALBERT R. JUBE
Chairman of the Executive Committee,
Collins & Aikman Corporation

ROY H. KIRCH
Chairman of the Board,
Edwin A. Kirch & Co.

WILLIAM B. LICKLIDER
President,
United States Savings Bank of Newark, N. J.

LYLE McDONALD
Director, and Chairman of the
Finance Committee,
Public Service Electric & Gas Company

H. BRUCE PALMER
President,
Mutual Benefit Life Insurance Company

HOBART C. RAMSEY
Chairman of the Board,
Worthington Corporation

CHARLES DALLAS REACH
Chairman of the Board,
Reach, McClinton & Co. Inc.

M. WILFRED RICE
Executive Vice President

CHARLES J. ROH
Chairman of the Board,
Hospital Service Plan of New Jersey

CLARENCE W. SLOCUM
Fanwood, N. J.

LOUIS STEIN
President, Food Fair Stores, Inc.

JOHN S. THOMPSON
Past President,
Mutual Benefit Life Insurance Company

GEORGE B. UNDERWOOD
President,
Underwood Mortgage & Title Co.

GEORGE A. VAUGHN, JR.
New York, N. Y.

MILFORD A. VIESER
Executive Vice President,
Mutual Benefit Life Insurance Company

COMMITTEE CHAIRMEN AND VICE CHAIRMEN CONTROLLERS INSTITUTE 1960-1961

MR. LANGDON

BUDGET AND FINANCE COMMITTEE which prepares the annual budget for Controllers Institute of America and suggests ways of increasing revenue and limiting expenses. Chairman: **Paul R. Langdon,** manager-finance and accounting, Battelle Memorial Institute, Columbus, Ohio.

MR. PATERSON

MR. VOGEL

MR. MAULE

MR. BOAG

MR. UHLIG

★ **ETHICS AND ELIGIBILITY STANDARDS COMMITTEE** which keeps up to date the Institute's concepts of purpose and membership. Chairman: **John A. Paterson,** vice president and comptroller, the Brooklyn (N. Y.) Union Gas Company; Vice Chairman: **Robert W. Vogel,** assistant treasurer and controller, Champion Spark Plug Company, Toledo, Ohio. ★ **ADMISSIONS COMMITTEE** which decides eligibility of membership applications in accordance with by-laws and rules of admission. Chairman: **Warren M. Maule,** secretary & controller, Cosmopolitan Shipping Company, Inc., New York; Vice Chairman: **Alexander Boag, Jr.,** comptroller, National Dairy Products Corporation, New York. ★ **PLANNING COMMITTEE** which studies problems relating to the Institute's long-range objectives, progress and usefulness. Chairman: **Earl R. Uhlig,** vice president-finance and controller, the Martin Company, Baltimore, Md.

MR. MacCALLUM

MR. LEASK

MR. TODT

MR. PLANT

MR. FITE

★ **CANADIAN AFFAIRS COMMITTEE** which represents Controllers Institute in contacts with the Canadian government and other Canadian organizations. Chairman: **A. R. MacCallum,** vice president-finance, American-Standard Products (Canada) Ltd., Toronto, Ontario, Canada; Vice Chairman: **Kenneth M. Leask,** comptroller and assistant treasurer, Trans Mountain Oil Pipe Line Company, Vancouver, British Columbia, Canada.

★ **EDUCATION COMMITTEE** which promotes knowledge of career requirements and opportunities relating to training for the controllership function. Chairman: **Hans C. Todt,** comptroller, Bristol Laboratories Division, Bristol Myers Co., Syracuse, N. Y.; Vice Chairmen: **Kenneth J. Plant,** comptroller, Rensselaer Polytechnic Institute, Troy, N. Y. and **Dean P. Fite,** comptroller, the Procter & Gamble Company, Cincinnati, Ohio.

Price Depreciation and Paper Profits

(Continued from page 482)

ital can suffer the strain of providing for the increase in the cost of replacements and the high tax burden resulting from an insufficient deduction for depreciation allowed by the Bureau of Internal Revenue.

SOME CORPORATE RECOGNITION

Provisions for price level or subliminal depreciation have been a rare item in corporate annual statements. However, some public utilities among others have recognized this item in one form or another. This problem is particularly acute with this group because approval for rate increases often are predicated on a percentage return on invested capital assets. The utilities have sought to place a current value on their equipment as a basis for determining an adequate return on investment. This group contends that original costs bear little resemblance to the expenditures which will be required to replace them at the termination of their useful life. Accordingly a few utilities treat price-level depreciation as an operating expense and the accumulated allowance therefore is shown in the equity section of the balance sheet.

Specific reference to one such report supplied the following explanations:

By the utility on its income statement: NOTE: The District provides for depreciation on the historical cost of the electric properties on a straight-line basis at rates determined by engineering studies. In the years 1958 and 1957 additional amounts were provided representing the difference between depreciation computed on property adjusted to current price levels and depreciation based on the historical cost; such additional provisions amounted to $658,000 and $665,000, respectively.

By the auditors in their certificate: Although this practice is not yet recognized as a generally accepted principle of accounting, it is our opinion that, for the District, it results in a fair statement of net revenue for the year, and we have approved its adoption.

In another annual statement by another utility which refers to this item as fair value depreciation: In June 1958, the company began charging fair-value depreciation to operating expenses based on the fair value of the property in those districts where such depreciation had been allowed in the determination of rates. An amount equivalent to revenues collected to provide fair-value depreciation . . . has been credited to an account for capital maintained by recovery of fair-value depreciation.

By the auditors in their certificate: Although generally accepted accounting principles presently provide that depreciation shall be based upon cost, it is our opinion

MR. OLDS

MR. HEARNE

MR. LILLIS

MR. LAING

MR. RICKARD

★ **FEDERAL TAXATION COMMITTEE** which studies tax effects and makes recommendations to governmental bodies and committees. Chairman: **Frank V. Olds,** assistant comptroller, Chrysler Corporation, Detroit, Michigan; Vice Chairman: **William L. Hearne,** vice president-taxes, U.S. Steel Corporation, New York. ★ **MANAGEMENT PLANNING AND CONTROL COMMITTEE** which promotes acceptance of, and develops new methods involving, the planning and control concept and cooperates with Controllers Institute Research Foundation in the implementation of this program. Chairman: **James F. Lillis,** vice president and comptroller, International Telephone & Telegraph Corporation, New York; Vice Chairmen: **R. Stanley Laing,** comptroller, National Cash Register Company, Dayton, Ohio, and **Edmund B. Rickard,** divisional controller, Ford Division, Ford Motor Company, Detroit, Mich.

MR. FLYNN

MR. INGRAM

MR. SHANNON

MR. LUNDBURG

★ **SECURITIES AND EXCHANGE REGULATION COMMITTEE** which studies and subsequently reports on the rules and regulations released by the SEC. Chairman: **James F. Flynn,** controller, Commercial Credit Company, Baltimore, Md.; Vice Chairman: **George Ingram, Jr.,** vice president and controller, Raytheon Company, Waltham, Massachusetts. ★ **STATE AND LOCAL TAXATION COMMITTEE** which studies all phases of nonfederal tax matters and recommends tax improvements. Chairman: **Bruce S. Shannon,** vice president-finance, the Drackett Company, Cincinnati, Ohio; Vice Chairman: **Alvin F. Lundberg,** treasurer, United-Carr Fastener Corporation, Boston, Massachusetts. ★ **PANEL ON ACCOUNTING PROCEDURES** which works closely with the American Institute of Certified Public Accountants to present Controllers Institute's viewpoint and recommendations on accounting principles.

MR. CRICHLEY

MR. BROWNE

MR. ADKINS

MR. REDMAN

MR. ROBERTSON

Chairman: **William A. Crichley,** treasurer, Diamond Alkali Company, Cleveland, Ohio. Vice Chairman: **Dudley E. Browne,** vice president-finance, Lockheed Aircraft Corporation, Burbank, California. ★ **ADVISORY COUNCIL ON FEDERAL REPORTS** which provides the Bureau of the Budget's Division of Statistical Standards with advice on matters arising from governmental requests for information and assists the Division in appropriate ways by making available the experience, ingenuity and knowledge of the business world. Representatives of Controllers Institute: **Lisle W. Adkins,** comptroller, General Dynamics Corporation, New York; **T. G. Redman,** comptroller, Swift & Company, Chicago, Illinois; and **Lucius E. Robertson,** assistant treasurer, Sperry Gyroscope Company, Great Neck, N. Y. ★ **NOTE:** Each committee is composed of regular members and an advisory panel for executive functions.

that these principles should be changed with respect to depreciation to recognize increased price levels. We approve of the practice adopted by the company, since it results, in our opinion, in a fairer statement of income for the year than that resulting from the application of generally accepted accounting principles.

A growing number of forward-thinking business men and accountants are convinced and are pioneering for recognition that a provision for price-level, fair-value, or subliminal depreciation is a necessary charge to arrive at real net income, however, the accounting profession as a body has been lax in its responsibility to the public for not taking a firm attitude in recognizing the matter of inflation as it applies to property. This is particularly inconsistent, since within its own body of rules it has recognized purchasing power dilution with respect to inventories. Restated, this sums up to the incompatible position of recognizing the current cost of inventories and adhering to historical costs with respect to property, plant and equipment.

Dissension within the accounting ranks stems essentially from small practitioners serving small business where property is not a material element of capital investment. They argue against change and state their case much in the following order, extracted from a recent letter published in a professional journal:

"Unfortunately, it seems that the generally accepted accounting principles applicable to the 100 largest corporations are also applicable to the 1000 smallest corporations. I can imagine the confusion that would be injected into financial reporting for small businesses if the concept of price-level depreciation were adopted as a generally accepted accounting principle. The relatively simple theory of basing depreciation on historical costs continues to be almost incomprehensible to many of the owners of small businesses.

"Does not the accounting profession have some obligation to confine accounting principles to practical concepts within the comprehension of the majority of those who must follow them?"

The answer appears to be obvious. Firstly, this kind of thinking could apply to any innovation with the result that man would still be cloaked in animal skins. Secondly, recognition of subliminal depreciation need only be adopted by those businesses wherein its omission would seriously hinder realistic income determination. Certainly not all companies have adopted Lifo to inventories or accelerated-depreciation methods. Professional and business judgment would indicate their desirability.

SUBLIMINAL DEPRECIATION ABROAD

In other countries of the world, where currency devaluation has been more radical than that occasioned by our creeping dollar erosion, we find a more decisive approach to the problem usually encour-

(Continued on page 506)

"There is something that is much more scarce, something rarer than ability. It is the ability to recognize ability."

ROBERT HALF
PERSONNEL AGENCIES
130 WEST 42 STREET, NEW YORK 36, N. Y.
LOngacre 4-3834

specializing exclusively in accounting and related personnel.

controllers
treasurers
internal accountants
cost/budget men
systems men
tax men
internal auditors
office managers
bookkeepers
public accountants

RH
the Accountant Finders
DIRECTED BY A CERTIFIED PUBLIC ACCOUNTANT

APPRAISALS

FOR

- *Tax*
- *Accounting*
- *Insurance*
- *Property Ledger Tie-in*
- *Remaining Life Estimate*
- *Capital and Expense Distribution Analyses*
- *Verification of Additions, Retirements and Transfers*
- *Cost Allocations*
- *Depreciation Studies*
- *Economic Surveys*
- *Replacement Reserves*
- *Proof of Loss*

Send for free brochure
"THE PURPOSES OF APPRAISALS"
—Dept. 439

STANDARD APPRAISAL COMPANY
ESTABLISHED 1906
DIVISION OF
MARSHALL and STEVENS
INCORPORATED
6 CHURCH ST., NEW YORK, N. Y.
CORTLANDT 7-4493

Price Depreciation and Paper Profits

(Continued from page 505)

aged by government action and appropriate tax relief.

In France, business was permitted to revalorize fixed assets by index numbers first published in 1945 and to predicate depreciation based on these more realistic values. A new set of indices is issued each year in order to currently recognize loss of purchasing power. These are acceptable and sanctioned under French tax laws.

Italy also has developed a somewhat comparable method. In reviewing the annual report of a principal industrial concern in that country we find the following note with respect to its fixed assets:

"Carried at historical cost or at cost as revalorized in accordance with legal coefficients" and in its retained earnings account the addition of about ten million liras described in its 1958 annual report as "adjustment to book value of property and plant accounts to bring these into agreement with the figures for profits tax purposes."

The revaluation of fixed assets is permitted also in Nationalist China predicated either on current price index, replacement cost or earning power and depreciation is then computed on these higher bases.

Belgium, Japan and Germany have permitted in their tax law relief of a similar nature but at certain set periods only. They have allowed revalorization predicated on published government coefficients and indices, and depreciation to be computed thereon.

Great Britain, Canada, and other members of the English Commonwealth have shown incidence of adjustment of property to reflect current values and have reflected depreciation thereon in their annual reports, though their governments have not seen fit to allow this additional charge for tax purposes. But we must admit at least that the accounting profession is more clearly arriving at a more realistic net earnings figure, an initial step we in the United States have yet to make on an "acceptable basis."

Certainly accounting and business pressure for the publication by the Government of a set of criteria would be no great strain on our Government's statistical facilities and would be a forward step in obtaining an objective means of measuring and compensating in annual statements for the elusive subliminal depreciation element currently ignored.

SOME POSSIBLE CORRECTIVE MEASURES

Recognizing that the principal obstacles have been a failure to agree on an objective means of evaluating the erosion of profits due to subliminal depreciation costs, and the lack of tax relief in this area, it would seem that the solution should develop in just that order.

Until more reliable or appropriate indices are developed through governmental statistics, as a starting point it might be agreed that the consumer index be used. That depreciation firstly be computed on historical cost. Secondly, that a composite average acquisition date of depreciable assets be determined; and lastly that the increase in the consumer index since that average date be applied to the depreciation computed on the cost basis. In addition, this amount of subliminal depreciation should be clearly identified in the income statement and treated as a deduction before arriving at the final net income figure reported in the annual statement. Until such time as this is allowed as a deductible cost for income tax purposes, this added item of depreciation would be carried in the tax return as an item of surplus reconciliation.

Once the accounting profession makes this or a similar procedure an acceptable criterion, it will depend on the judgment of the individual accountant in the particular business to pass on the reasonableness of such procedure in arriving at a fair determination of net income. There is no substitution for sound judgment in any profession if it is to remain worthy of being a profession.

TAX CONSIDERATIONS

It is well, at this time, to stress again the point that market profits, due to rising prices, disappear quickly when prices fall. Experience has shown that they can go as unexpectedly as they came. During the period that these market profits stand on the books, they provide no additional cash for payment of dividends, for the maintenance of property, or for plant extensions.

Though it is true that plant, machinery, and equipment, through depreciation, are constantly being sold, and cash is realized, the cash so obtained must be reinvested in replacements at higher price levels if the business trade is to continue. These profits are really capital gains, which should remain in the business as insurance against capital losses. If taxed they must be, then let them be taxed at the capital gains rate of 25 per cent instead of the usual 52 per cent corporate tax on profits.

It is unfortunate that the present tax laws while accepting the last-in, first-out method of eliminating substantial inventory profits from net income, have not seen fit to accept depreciation on replacement costs, in spite of the fact that they both serve the same purpose.

The policy behind the income-tax laws has generally been to levy taxes only on realized income. Where, for example, there is an increase in the value of a building or a share of stock, the taxing authorities have seen fit to delay the tax

on those capital gains until the assets are sold and the income derived therefrom realized. The question is reduced to: *When are profits realized?* It is believed that no income is realized where there is mere substitution of an integral working asset. The tax should be delayed until there is final liquidation of a basic portion of the asset, whether it be inventories or plant facilities.

CONCLUSION

A part of the whole profit resulting from the sale of products results from the intelligent use of business property. Any part of that profit which is consumed by the replacement of that property at a figure above original cost should not be considered profit. Yet, with the exception of minor deviations from acceptable standards, it is so treated by industry in its annual statement to the public, the accounting profession sanctions it and the Government taxes it.

Until accounting conventions and taxes are modified to conform with reality, it is recommended that present problematical profits statements be properly supplemented in order to arrive at realistic earning power. It is up to the businessman, who must live and make decisions based on financial reports, to take up the task that others have refused to accept. It is he who must make an accounting of business stewardship by converting problematical profits into meaningful profits.

The development and use of sound principles of accounting must remain the cardinal objective of the progressive-thinking accountant.

If the profession of accounting is to maintain the responsibility, respect and recognition it seeks and deserves in our economy, the principal goal must always be the determination and application of sound accounting principles which can also cope with dollar erosion. Certainly, general acceptance and approval will naturally follow as it has in other areas.

What Does Management Want of Accounting?

(Continued from page 473)

costs. We are still in considerable disagreement at Pitney-Bowes as to whether direct costing has any merit for us, although we are at least getting away from straight absorption of overhead based on direct labor, and are going to fixed and variable overheads not necessarily applied on the basis of direct labor dollars. We are being forced to this because we're getting less and less direct labor on which to absorb overhead as automation increases and, consequently, our overhead rates continue to rise. Others are being forced to consider changes, too, and I believe that the recent revival of interest in direct costing has come about, not because direct costing in itself is necessarily the right way to do our accounting, but merely because we realize that our present methods just do not give answers that are useful to us in guiding our operations.

What can be done to meet the challenge? I believe there is a great deal that can be done by all of us and I would suggest a program about like this:

1. The establishment of research departments by the larger public accounting firms. This is not a novel idea, and I believe a number of them have such organizations. However, I believe there should be more of them and that they should be encouraged in "free thinking" and not be bound by any of the present accounting rules or procedures. The phrase "generally accepted accounting principles" can be a strait jacket to this kind of effort. Perhaps the aim should be to investigate generally *unaccepted* accounting principles.

2. The formation of committees and research groups by professional accounting organizations to explore all avenues of accounting progress needed by automation and the rapid progress in industrial development. I'm sure that such groups are now in being, but I wonder if they are not approaching the problem from within the confines of the accounting text books as they are now written.

3. The establishment by companies within their financial divisions, either formally or informally, of groups to study all phases of accounting operations in relation to the needs of the other divisions of the company to see whether they are really keeping up with or leading the procession, or merely struggling hard to keep from lagging further behind.

4. Finally, and this is perhaps the area where there is going to be the greatest hope for the future of accounting—each of us individually ought to try to approach every accounting problem with a fresh viewpoint, with the idea of trying to seek, not the easy solution, not the one that somebody has already worked out for us, but the solution which will really add something to the stature of our profession with our associates and general management.

As a people, we have always set great store by individual initiative, and I believe it is through such individual effort that our greatest progress has come. If, instead of being resentful over the indictment of our concepts and methods expressed by our vice president for manufacturing on behalf of management, we accept the challenge, I firmly believe we will open new vistas of accounting opportunity and importance in our companies.

ADVERTISING INDEX

Addo-x 454

Bell & Howell Phillipsburg Co. 457
L. L. Brown Paper Co. 502

Charles Bruning Company, Inc. 497
Cardway Corporation (Div. of Cushman & Denison Mfg. Co., Inc.) 488
Controller, The 489
Controllers Institute 493
Controllers Institute Research Foundation, Inc. 495

Duffy's, Inc. 499

Charles M. Eisner 495

Friden, Inc. 487

General Time Corporation—Stromberg Division 483

Robert Half Personnel Agencies 506
Haloid Xerox Inc. 479

International Accountants Society, Inc. 453
International Business Machines—Data Processing Division 480-481
International Business Machines—Supplies Division 491

Kemper Insurance 501
Frank M. Knox Company, Inc. 456

Liberty Mutual Insurance Co. 460
Lloyd-Thomas Co., The 498

Mac Panel Company 469
McCormick & Co. 458
Monroe Calculating Machine Co., Inc. 471
Moore Business Forms, Inc. 459

National Cash Register Co., The ... Back Cover
National State Bank of Newark 503

Philco Corporation—Government & Industrial Group 465

Radio Corporation of America Inside Back Cover
Recording & Statistical Corporation 490
Royal McBee Corporation Inside Front Cover, 477, 499

Standard Appraisal Co. 506
Statistical Tabulating Corp. 458

What About Pension Costs In Hiring Workers Over 45?

Much has been said about the high cost of providing pensions for new employes in the mature group who obviously must retire within a shorter span of years than new young employes. This cost has been seen as a barrier to the employment of older workers.

The National Association of Manufacturers recently queried 70 leading companies, asking *"If you have a pension plan, does it affect your employment of those over 45?"*

The answers showed:

Fifty-eight per cent of employers declared that age did not affect employment of qualified workers.

Thirty per cent said they could not include anyone in their pension plans until he had been employed five to ten years.

The rest said they did not discriminate against hiring older workers, but did not include them in pension plans. Some compensated for this with a separation allowance.

But the pension issue is diminishing in importance for several reasons. Social Security benefits have been increased. More employes have established their own insurance and annuity protection. Many employes have retained pension rights from former jobs.

Additionally, companies have found that older workers included in pension plans do not add so much to cost as had been anticipated because they tend to defer retirement beyond 65, and because the longer life-expectancy of new young workers means these will draw more heavily upon pension funds—especially if payments continue to increase, necessitating larger company contributions for them.

Group life insurance costs were found to average only a cent an hour more for a 50-year-old worker than for a 30-year-old.

And the lower accident rate of older workers reflects favorably in the charges for workmen's compensation insurance.

The practice of analyzing the requirements of specific jobs and matching them with the best qualified applicant has worked to increase the employment opportunities of the mature. Testing has shown that 40 per cent of workers over 45 can outproduce younger workers, even to the age of 65.

A 1958 survey of 140 business executives showed that age is ranked as of least importance in selecting supervisors.

Employment records in thousands of companies show that older workers are holding jobs in greater volume than ever before.

The New York State Labor Department reported that between the 1940 and the 1950 census, the population of New York City increased six per cent, while the number of persons over 65 increased eight times as fast—49 per cent. The number over 45 increased 26 per cent. But employment of people over 65 increased 100 per cent and of those over 45 increased 51 per cent. More recent census figures are not yet available, but there are other indicators.

In May 1960, the New York State Labor Department reported that "workers between 45 and 64 have been particularly successful in job-hunting. Representing 29 per cent of the job seekers, they accounted for 28 per cent of the nonfarm jobs the agency filled between July 1958, and June 1959."

Figures for Detroit show that the number of men over 65 increased 62.4 per cent while employment of these men increased 109 per cent. The number of women over 65 increased 69.9 per cent while those employed increased 133.3 per cent.

The Census Bureau and Bureau of Labor Statistics figures show that from 1940 to 1955, the number of working civilians in the United States increased 35 per cent while the number of employed workers over 65 increased 54 per cent.

And a recent study by the Department of Labor indicates that there is less unemployment among the over-45 and over-65 groups than among the young workers, and even somewhat less than among the population as a whole.

★ OPPORTUNITIES ★

EMPLOYMENT • SERVICES • MISCELLANEOUS

RATES: *$5.00 per inch or fraction thereof each insertion. 50¢ each additional line. Payable in advance. Allow approximately 40 words to the 1 column-wide inch including 2 words for box number. Closing date 10th of preceding month.*

Address box number replies to THE CONTROLLER, Two Park Avenue, New York 16, N. Y. Replies will be forwarded.

SITUATIONS WANTED

CONTROLLER OR ASSISTANT

B.S., M.B.A., 31. Presently divisional manager of accounting and auditing. Eleven years' diversified experience in all phases of accounting, finance and management for large and small companies—defense and commercial industries. Box 2469.

ASSISTANT TREASURER

Executive with 13 years' financial and business experience including financial planning and forecasting, analysis, capital budgets, investments and contracts. Excellent administrator and coordinator. Cornell graduate economics major. Age 40. Married. Box 2472.

CONTROLLER-FINANCIAL

Administrative executive; 20 years with integrated oil and gas company. All phases of accounting, auditing, tax, insurance, personnel, FPC work and contracts of various types. College degree and CPA. Prefer southwestern part of the country. Box 2473.

NOTE: THE CONTROLLER *reserves the right to accept, reject or censor classified copy and takes no responsibility for the people contacted through this column nor does it guarantee any item bought or sold.*

Computer Buyers Waiting for "Solid States," Census Shows

Updating of the John Diebold & Associates' Computer Census of January 1960 indicates half-year increases in installations in all sizes, that is, 12, 24, and 16 per cent respectively for large-, medium-, and small-scaled systems. The new figures appear in the Diebold ADP Newsletter published recently. This is at a pace roughly half of that for the year 1959, when currently listed six-months' increases are doubled to compare with those listed in January over the prior whole year. Results are slightly better than this for medium-scaled and are about one-third of the earlier rate for the large-scaled systems.

However, it is pointed out that the past year, and especially the past six months, have witnessed a burst of activity on the part of manufacturers concerning new transistorized units, and in making the first few installations of transistorized units announced before this census. For example, the first customer installation of IBM's highly popular 1401 will not go in until the fall of this year, and the same is true of its 7070 and 1620. Similarly, the long-discussed Honeywell 800 will not go in until fall.

Installations have obviously been marking time as customers have placed orders for the new models which are yet to come from the production lines. The industry is also feeling the effects of delayed ordering in the 1958 recession. Dollar-wise, of course, a compensating factor is the increased price tags associated with ever-increasing speeds, capacities, and versatility.

Since this census confines itself to general purpose systems, it does not reflect continued activity in banking, except where the largest banks have installed large-scaled general-purpose computers. Thus, Burroughs reports 60 of its "VRC" Visible Record Systems on order. Activity is also reported in IBM's 1200 series for banks, although no installations have as yet been reported, and no on-order figures are available. General Electric reports "several orders" placed for its GE-210, developed for banks.

X-UM